# 6 Compulsory licensing provisions

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| Key points |
| * There are legitimate reasons for the limited use of compulsory licensing. The costly and time-consuming application process could be a barrier, but there are no clear options for improving the process, without also lowering the quality of the outcomes. * There is a clear case for reforming the criteria for ordering a compulsory licence — the competition test and the ‘reasonable requirements of the public’ test. * The competition test operates via cross referencing the restrictive trade practices provisions of the *Competition and Consumer Act 2010* (Cwlth) (CCA) in the *Patents Act 1990* (Cwlth) (Patents Act).This undermines the effectiveness of s. 133(2)(b) of the Patents Act as a standalone ground for compulsory licensing and creates uncertainty for the parties. * The Australian Government should seek to remove s. 133(2)(b) from the Patents Act, so that a compulsory licence order based on restrictive trade practices of the patent holder is only available under the CCA. The remedy provisions in the CCA should be amended to explicitly recognise compulsory licence orders as a remedy under the Act. * Section 51(3) of the CCA exempts some licence conditions from some provisions of Part IV of the CCA. While its effect on compulsory licensing is limited, the case for retaining this section is weak. * The reasonable requirements of the public ground for ordering a compulsory licence is unlikely to promote efficient outcomes. * It stands alone in Australian jurisprudence, rather than leveraging off comparable provisions in other laws. This increases uncertainty and costs of the parties. * It has protectionist objectives that are inconsistent with community-wide welfare. * The reasonable requirements of the public ground should be replaced with a new public interest ground that focuses on providing access to patented inventions in a way that promotes the wellbeing of the community as a whole. * The Australian Government should seek to remove s. 136 from the Patents Act. In the future, relevant international agreements should be incorporated directly into the Patents Act. This would reduce uncertainty for the parties and ensure a more appropriate degree of scrutiny for any changes to the law. |
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## 1 Efficiency of the compulsory licensing process

As discussed in chapter 1, there have been few applications for a compulsory licence in Australia, and none have been successful. There are several possible reasons for the limited number of applications:

* In most cases, parties negotiate a licensing agreement voluntarily, because it is in their best interest to do so and hence, the need for a compulsory licence rarely arises.
* A compulsory licensing mechanism may act as an effective deterrent against refusals to license.
* There are other mechanisms in the *Patents Act 1990* (Cwlth) that allow a patented invention to be used without the authorisation of the owner, as well as other options available to prospective licensees. Those mechanisms and options may divert some of the potential compulsory licensing applications.
* The process for granting a compulsory licence is so costly and time consuming that a potential licensee rarely finds it a viable option.

### Compulsory licensing is rarely needed

Voluntary agreements about access to a patented invention can generate benefits for both parties to the transaction. As discussed in chapter 4, there are many reasons why organisations might license their patented technology, including:

* to earn revenue from royalties and other payments
* to take advantage of collaboration — for example, from utilising the licensee’s additional manufacturing or research capacity, or from spreading the risk associated with commercialisation.

Many inquiry participants commented that compulsory licensing was rarely used, because it was usually in the interests of both parties to negotiate a voluntary agreement. For example, Scott Bouvier observed:

Based on the patent licensing activity of my clients, it is my view that the compulsory licensing provisions are infrequently invoked because they are not generally necessary in an Australian context where most patent holders have sufficient economic or other commercial incentive to license their inventions on reasonable terms. (sub. 2, p. 1)

Similarly, FB Rice stated that limited use of compulsory licensing was:

In our view … more likely indicative that the provisions are rarely required. (sub. 7, p. 2)

The Law Council of Australia (sub. 32, p. 3) argued that a voluntary outcome was superior for a licensee, because the agreement could incorporate other know-how of the patentee and thus be better adapted to the licensee’s needs than a narrow compulsory licence ‘to work the patented invention’.

Several other participants (for example, CSIRO, sub. 26) observed that compulsory licensing was a last resort mechanism and that, typically the issue was resolved earlier through other mechanisms, including voluntary negotiation.

While a voluntary licence will not always be achievable, for the most part there are legitimate commercial reasons for the failure to achieve a negotiated agreement (outlined in chapter 4). Hence in most cases there is no policy reason for allowing non-voluntary access to a patent.

There are essentially only two circumstances where parties in the private sector would not voluntarily negotiate a socially beneficial licence:

* the patent owner benefits from blocking an actual or potential competitor
* a potential licensee would not be able to earn a sufficient return on the licence, compared to the benefits that the licence will create for the broader community. This may be because a large proportion of the benefits to the community is from spillovers or broader public gains that cannot be captured by a private sector licensee.

A potential licensee working in the private sector would only seek a compulsory licence in the first scenario. In the second scenario, Crown use provisions are likely to be a more effective and appropriate mechanism (chapter 7).

In sum, compulsory licensing is a safeguard that only needs to be invoked in exceptional cases.

### Compulsory licensing may be a deterrent in negotiations

The number of compulsory licensing applications is not the only indicator of the effectiveness of the mechanism. A common argument is that compulsory licence provisions are used as a negotiating tool by the potential licensee, without the need to resort to a formal application. Due to the confidential nature of negotiations, evidence of the effectiveness of compulsory licence provisions as a deterrent is hard to obtain and is generally anecdotal. Submissions on the issue have been mixed. Some participants (for example, Centre for Law and Genetics, sub. 3) indicated there was little evidence of the effectiveness of compulsory licensing as a deterrent. Others (for example, FB Rice, sub. 7; Association of Australian Medical Research Institutes, sub. 17) indicated that compulsory licences played a role in negotiations. The Law Council of Australia (sub. 32) provided some examples (box 6.1).

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| Box 6.1 The use of compulsory licensing as a deterrent in negotiations |
| The Law Council of Australia provided some examples of when the threat of a compulsory licence application helped a licensee achieve a negotiated outcome:  1. A licence of bauxite processing technology was negotiated after proceedings were commenced seeking orders for a compulsory licence. A negotiated outcome was achieved before the proceedings progressed beyond pleadings.  2. After discussions stalled in relation to a licence to a patent covering a hepatitis E assay kit, an application and statement of claim pursuant to section 133 (1) of the *Patents Act* were prepared. The pleadings were given to the patentee and a licence was subsequently granted without the need for the proceeding to be issued.  3. In a claim in relation to another assay kit, proceedings were commenced in which the cross-claimant alleged invalidity, or in the alternative, sought a compulsory licence. A negotiated licence was ultimately agreed prior to trial. (sub. 32, p. 3) |
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### Other options for potential licensees

There are several mechanisms within the Patents Act that provide alternatives to compulsory licensing (chapter 1). For example, the Crown use provisions make compulsory licence applications unnecessary for Crown entities — Commonwealth and State Governments and their authorities (chapter 7). A compulsory licence is also not needed if a patented invention is used for experimental purposes, or for the purpose of obtaining regulatory approval, because these are exempted from patent infringement (chapter 8).

There are also other options a prospective licensee can take, such as those mentioned by the Centre for Law and Genetics:

Where a refusal to license is encountered, various methods of counteracting the refusal are employed by industry participants, including challenging patents, inventing around, or ignoring the patents and continuing to conduct research. The reality is that there are few circumstances in which a patent holder would deny a licence, and in most cases the refusal will be entirely justifiable. (sub. 3, p. 16)

In sum, the limited use of compulsory licensing is not necessarily indicative of a problem with the provisions. It can, as discussed above, be due to the rarity of cases where it is needed (chapters 4 and 5), the effectiveness of the provisions as a deterrent against refusals to license, or that other options are more suitable. Nevertheless, it is widely recognised that obtaining a compulsory licence would be costly and time consuming. The nature of this concern, and potential measures to address it, are considered below.

### Cost and timeliness of the process

Various participants argued that the limited use of compulsory licensing is, at least in part, caused by the cost of the process. For example, the Centre for Law and Genetics observed:

… our empirical evidence indicates those who would consider applying for a compulsory licence perceive that the financial cost is prohibitively high ... We submit the fact that there have been so few applications for compulsory licences indicates that there is very likely some issue associated with the time and cost involved in making applications. (sub. 3, pp. 10-11)

Under s. 133(1) of the Patents Act, applications for an order to grant a compulsory licence must be made directly to the Federal Court. This could potentially be a source of high financial cost and delay for the parties.

Due to the absence of Australian jurisprudence on compulsory licence applications, there is no direct evidence on the associated costs of litigation. Furthermore, the broader evidence on the costs of pursuing a civil action in the Federal Court is scarce, and its relevance would be limited by the bespoke nature of individual cases. Nevertheless, the legal costs are likely to be substantial. For example, a survey commissioned by the ALRC (Matruglio 1999) found that professional fees for intellectual property cases that were filed in the Federal Court ranged between $8000–$400 000 for applicants and $2145–$280 019 for respondents. While no comparable surveys appear to have been undertaken since, the Attorney-General’s Department observed that ‘these costs have obviously increased over the last ten years’ (Australian Government 2009, p. 121).

The administrative fees of the Federal Court are a further cost on the parties, and for corporations can include the following fees, among others (Federal Court of Australia 2012):

* a fee of $2248 for filing a document to commence proceedings
* a fee of $3746 to set a proceeding down for hearing
* daily hearing fees ranging between $1499–$5320, depending on the length of the hearing — the Advisory Council for Intellectual Property previously reported that the average trial time for patent matters finalised between 1996 and 2001 was 7.25 days (ACIP 2003).[[1]](#footnote-1)

Participants provided a range of estimates for the likely cost of a compulsory licence application, but they generally indicated a substantial cost:

I would generally expect an application to the Federal Court for a compulsory licence order, if contested, to involve fees in the range of $200 000 to $500 000. Very few patents are likely to be seen to be sufficiently profitable at the early stage to justify such costs. (Scott Bouvier, sub. 2, p. 2)

… a reasonable estimate for a relatively straightforward application would be in the order of $105,000 (junior counsel only) to $150,000 (senior and junior counsel). However, the costs for an application for a compulsory licence under a pharmaceutical patent which is vigorously contested by the patent owner could easily reach $1m and probably higher. (IPTA and FICPI, sub. 18, p. 10)

The time taken to finalise a matter in the Federal Court could be the most significant contributor to broader costs of the parties (ACIP 2003). Federal Court statistics indicate that it is not uncommon for matters to take longer than 12 months to finalise (figure 6.1).

Figure 6.1 Timeliness of Federal Court judgments

Per cent of matters aged over 12 months outstanding at 30 Junea

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a Excludes appeals and related matters.

*Source*: Federal Court of Australia (2012 and previous issues).

The above costs are likely to be compounded by the uncertainty associated with the outcome of a compulsory licence application. As noted earlier, there is virtually no Australian jurisprudence on compulsory licensing, and the extrinsic guidance on the meaning of the relevant provisions of the Patents Act is very limited. Furthermore, as the decision in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp.[[2]](#footnote-2)* illustrates, even where the test in s. 133 is satisfied, the Federal Court has some discretion on whether to order the compulsory licence. This could be a source of additional uncertainty, and a further cost on the parties.

The Walter and Eliza Hall Institute of Medical Research observed:

The current provisions and lack of precedent mean that there is uncertainty due to high cost and uncertain delays, with no known way of estimating the prospect of success or financial return. (sub. 13, p. 5)

Notwithstanding the above, the Federal Court (sub. 29) outlined a range of approaches that it utilises to improve the efficiency of its processes, including:

* case management — several techniques are employed, such as:
* individual docket system — a case is managed by the same judge until finalisation
* national panels in specialist areas of jurisdiction, including patents — panel cases are heard by judges with expert knowledge in the area
* special listing arrangements — an expedited process applies to cases meeting certain criteria
* ancillary processes — the Court can refer cases to internal or external alternative dispute resolution (ADR) and can also engage expert referees to assist it on particular issues
* guidance to parties and practitioners on general process, as well as on particular types of proceedings, including those under the Patents Act.

#### Benefits of lower cost dispute resolution may not be great

Even if the current process entailed high costs for some potential applicants, the gains from moving to an alternative process for compulsory licensing may not be great.

First, as noted previously, the available evidence suggests that compulsory licensing is rarely needed. In other countries, some of which allow a lower-level court or an administrative body to grant compulsory licences (at lower cost), such licences have also been rarely granted (appendix C).

Second, with the exception of the administrative fees of the Federal Court, it is unclear whether the cost of the process could be avoided by simplifying it or by moving the hearing to a different forum. The resources dedicated by the parties to winning a compulsory licence dispute depend on what is at stake for them. If the gains from winning (or costs from losing) are high, a party is likely to commit more funds to the case. This could manifest both in spending more to prosecute its initial case and in appealing an unfavourable outcome. Consequently, introducing a new lower rung in the dispute resolution hierarchy would typically only be beneficial in marginal cases that are currently not proceeding because the costs of the existing process outweigh the benefits. Where the value of a compulsory licence to the parties is high, lower-cost dispute resolution is unlikely to generate a great benefit to them, and may even increase the cost, if it adds a step to the current process.

The Institute of Patent and Trademark Attorneys (IPTA) and the Australian Federation of Intellectual Property Attrorneys (FICPI) commented:

The likely legal and ancillary costs … will depend largely on the extent to which the patentee is prepared to contest the application. Factors which will impact on the overall cost include: whether the … dispute involves simple or complex technology; whether the market is small, well defined, large, complex, new and emerging or mature; the availability of local witnesses; the resources available to one or both of the parties to apply to preparation or defence of the application … (sub. 18, p. 10)

The CSIRO observed:

If an administrative determination on compulsory licensing were to be introduced, such decisions would presumably be subject to review, either as an appeal on the merits or by way of judicial review, which, if invoked, could well increase the overall time and cost of a compulsory licence application. Moreover, the main costs incurred in either judicial or administrative environments are those incurred by the parties in preparing for the hearing; these are often the same for either type of venue. (sub. 26, p. 4)

Third, in considering lower-cost dispute resolution options, it is important to be mindful of any adverse effects on the quality of the outcome, as well as the behaviour of the parties. To the extent that compulsory licensing disputes are highly technical and complex, the current process and legal forum may be an appropriate reflection of that. In those cases, moving the responsibility to a lower court or removing some of the procedural steps may reduce the quality of the outcome. Furthermore, to the extent that it is desirable to build a body of precedent in an area that currently has virtually no jurisprudence, it may be appropriate that early decisions on the principles of the law are vested with a superior court that records its proceedings.

Making the process less costly may also encourage misuse of the provisions by the parties. Scott Bouvier observed:

… a competitor or frustrated potential licensee might take advantage of the compulsory licensing regime if it was more easily accessible and/or if the financial disincentives of making an application to the Federal Court were removed. For instance, the regime could be used to find out more information about a licensor (as a ‘fishing expedition’) or as a tactical measure, such as by a large organisations against a competitor to slow down the competitor's commercialisation process. (sub. 2, p. 3)

With the caveat about the limited benefit from introducing a lower-cost dispute resolution mechanism in mind, the Commission has concentrated on changes to existing institutions and processes, rather than on establishing a new body to deal with compulsory licence matters.

#### Alternative dispute resolution

Alternative dispute resolution (ADR) refers to a process other than judicial determination in which an impartial person assists the parties in resolving the dispute. Three ADR mechanisms are commonly identified — mediation, conciliation and arbitration. There is currently no comprehensive legislative framework governing the operation of ADR in Australia, with different arrangements applying depending on the law and jurisdiction (NADRAC nd).

ADR can be initiated voluntarily by consenting parties at any stage of the dispute, or can be ordered by a court as part of its case management process, once litigation has commenced. Mandatory ADR is sometimes advocated as a pre-requisite to, or an early step of, patent litigation (ACIP 2003).

Of the three types of ADR, conciliation and mediation focus on facilitating a negotiated outcome between the parties.[[3]](#footnote-3) These types of ADR would generally generate the greatest benefit where the parties resort to litigation before exploring voluntary dispute resolution options. It is unclear what gains would be achieved by introducing a formal requirement for mediation or conciliation for compulsory licensing matters. The existing ‘reasonable requirements of the public’ ground for compulsory licences already appears to have a similar effect by requiring the applicant to try for a reasonable period to obtain an authorisation to work the invention on reasonable terms and conditions. More generally, an application for a compulsory licence, in and of itself, could be interpreted as evidence of failed negotiations between the parties. In that context, imposing an additional requirement to negotiate would simply add to the costs of the parties.

On the other hand, arbitration, which involves a specialist arbitrator hearing the dispute and making a binding determination, could, in theory, be the next step following the failure of negotiations. Some researchers have advocated compulsory arbitration for patent disputes. For example, in the context of the European Union, Kingston (1995) argued that using an expert arbitrator in favour of an ordinary court would lead to a quicker and lower-cost resolution of patent disputes and address the problem of intimidation of the smaller party by the bigger one. He further claimed that most of the decisions by the arbitrator would not be appealed, because courts would be reluctant to overturn the technical findings of a specialist. On the other hand, the National Alternative Dispute Resolution Advisory Council (NADRAC 2009) acknowledged evidence that in Australia, commercial arbitration has become a costly and slow process that often approximates that of the courts. It also reported concerns that, because arbitral awards are usually not published and generally not based on a system of precedent, there could be uncertainty and confusion among parties, practitioners and arbitrators.

The Commission can see potential benefits for the parties in utilising arbitration over a standard court process. However, it has strong reservations about making the process compulsory or capable of being initiated by one of the parties without the other’s consent. This would amount to a significant change to existing legal practice. Currently, s. 53A of the *Federal Court of Australia Act* *1976* (Cwlth) requires the parties’ consent for arbitration orders made by the Federal Court.[[4]](#footnote-4) NADRAC (2009) has previously looked at the option of giving judges the power to order binding arbitration in federal jurisdiction matters, and found that there are constitutional constraints on the Australian Government’s ability to legislate it. It ultimately recommended that the parties’ consent remain a requirement for this process.

In sum, the case for changing the existing ADR arrangements is weak. Voluntary ADR is already available to the parties. The Federal Court also uses ADR as part of its case management process. Whether that case management itself is efficient, is a broader matter outside of the scope of this inquiry. However, there is no clear policy reason for unique treatment of compulsory licence applications within that process.

On the other hand, mandating the use of mediation or conciliation would add to the costs, but be unlikely to materially affect the status quo, while compulsory arbitration has not been applied in any other federal law, and may be unavailable for constitutional reasons.

#### Administrative dispute resolution

Some participants argued in favour of moving the responsibility for determining compulsory licensing matters to an administrative body.

Scott Bouvier (sub. 2) suggested the function could be vested with IP Australia with subsequent right of appeal to the Federal Court. A comparable arrangement applies to trade mark disputes. For example, the Registrar of Trade Marks can hear and determine applications to remove the trade mark from the register for non-use. However, the key difference between that arrangement and the proposal in relation to compulsory licensing is that the powers of the Registrar of Trade Marks are generally limited to the issuing and revoking of registrations and do not extend to licensing or any other commercial interactions between the owner of the trade mark and third parties.

The approach of vesting compulsory licensing powers with the relevant patent office has been adopted in some countries,[[5]](#footnote-5) but the Commission generally does not support it. The current structure, functions and resources of IP Australia do not appear well adapted to a compulsory licensing role. For example, IP Australia, in its current dealings does not appear to have significant exposure to the *Competition and Consumer Act 2010* (Cwlth) — a potential key factor in compulsory licence matters. There is also no apparent expertise on determining appropriate compensation for the licence. The Law Council of Australia observed:

[IP Australia], as it stands, would not be so well equipped to make such assessments. The assessments are predominantly accounting and commercial assessments and are likely to require determination of the credibility of witnesses, better handled by judges with experience of determining commercial disputes. (sub. 32, p. 2)

Under the current provisions, IP Australia is recognised as a potential participant in compulsory licence hearings (s. 139 of the Patents Act). The Commission considers that this is a more appropriate recognition of IP Australia’s role in such matters.

The Centre for Law and Genetics (sub. 3) proposed vesting compulsory licensing powers in an expanded Copyright Tribunal of Australia, noting its experience in setting licence royalties. The Tribunal is an independent body administered by the Federal Court of Australia. It currently has jurisdiction on statutory and voluntary copyright licence matters, and has a general focus on determining remuneration (Copyright Tribunal of Australia 2009).

The Commission considers that this proposal is unlikely to generate significant efficiency gains. First, any synergies between the current functions and expertise of the Tribunal and a proposed role in patent compulsory licensing are likely to be limited. There are significant differences between copyright and patent licences. The former are likely to have a standard form, not involve highly technical issues and be issued to a large number of relatively homogenous users. In contrast, patent licences are likely to involve technical matters and be of a bespoke nature in the rights they confer. Thus any remuneration principles applied by the Tribunal may be of limited relevance to patent licences. Moreover, the Tribunal does not have a significant body of decisions to draw on. Over the past 30 years, there have only been 43 reported decisions, with only 8 decisions in the past 5 years.[[6]](#footnote-6)

Second, from the limited evidence of the Tribunal’s past operations, it is unclear whether there would be a material reduction in the costs of the parties. The Tribunal is presided over by a Justice of the Federal Court, and it draws registrar and administrative support from the Federal Court (Federal Court of Australia, sub. 29). The timeliness of its determinations appears comparable to Federal Court judgments on intellectual property matters. The Copyright Law Review Committee (2000) previously reported that the average time for the Tribunal to finalise matters was 22 months. An examination of the determinations issued since that report indicates similar timelines.

The Commission also examined the possibility of transferring the responsibility for compulsory licensing to the Australian Competition Tribunal or the Administrative Appeals Tribunal. It has concluded that those bodies are ill suited for the function, because their jurisdiction is limited to review of administrative decisions and does not cover civil law disputes between private parties.

#### Federal Magistrates Court

The Federal Magistrates Court (FMC)[[7]](#footnote-7) is a lower-level federal court, which was established in 1999 ‘to provide a simple and accessible alternative to litigation in the Federal Court’ (FMC nd). Its legislation requires the Court to ‘operate informally and use streamlined procedures’. The FMC has broad jurisdiction, which includes (among other areas) administrative law, competition and copyright matters.

While a direct comparison of the efficiency of the FMC and Federal Court processes is difficult due to the differences in the complexity of the matters heard by the courts, FMC statistics indicate that it generally finalises its matters faster than the Federal Court. For example, it reported that in 2011-12 it completed 78 per cent of the applications under general federal law within 6 months, and 94 per cent within 12 months (FMC 2012).

The Advisory Council on Intellectual Property (ACIP) has previously examined the case for extending the jurisdiction of the FMC to patent, design and trade mark matters. It observed that the FMC:

… has the advantage of lower court fees and currently quicker times for resolution (though this may change as cases accumulate). It also uses innovative procedures such as fixing the trial date at the first hearing date which expedites the matter. (ACIP 2003, p. 30)

ACIP also noted that vesting such powers in a lower court may compromise the quality of the outcomes, due to the technical nature of the disputes. However, it also cited submissions that the quality of the outcome was less a function of the level of the court in the hierarchy than of the expertise of the adjudicator. Ultimately, it recommended for the jurisdiction of the FMC to be extended to patent matters.

The FMC in its past annual reports has expressed support for the recommendation:

The Court considers the conferral of enhanced intellectual property jurisdiction would provide an alternative forum for those who may not otherwise pursue such actions. (FMC 2011, p. 37)

Notably, the FMC may already have jurisdiction to be involved in some compulsory licence matters, through its power to deal with cases involving the contravention of s. 46 of the *Competition and Consumer Act 2010* (Cwlth) (discussed in section 6.2).

ACIP’s recommendation to extend the jurisdiction of the FMC to patent matters was not implemented by the Australian Government.[[8]](#footnote-8) In its response, the Australian Government noted that the FMC was intended to deal with simpler and shorter cases and that patent cases are generally longer than trade mark and design cases and concluded:

… the Government recommends that further consideration be given to conferring the Federal Magistrates Court specific jurisdiction in patent related disputes in the light of experience gained in the implementation of the recommendations for trade marks and designs, and the operation of the transfer mechanism in the *Jurisdiction of the Federal Magistrates Court* *Legislation Amendment Act 2006*, over a period of two years from implementation of the recommendations. (IP Australia ndb)

The Commission considers that extending the jurisdiction of the FMC to cover compulsory licensing matters is not warranted at this time. The Court’s function as a forum for speedy resolution of simpler cases is not well suited to a complex and untested area of the law, such as compulsory licensing. The absence of expertise within the FMC on patent matters would undermine any cost savings during and after the hearing, as well as increase the likelihood of appeal of the initial decision.

In light of the above, the Commission has concluded that at this stage, the Federal Court is the most appropriate forum for developing the relevant jurisprudence.

Draft Finding 1

While the cost and timeliness of the compulsory licensing process could be a barrier for its use by some parties, there are no clear alternatives that would significantly reduce its cost without also reducing the quality of the outcomes and increasing the scope for appeals.

#### Reducing the uncertainty of the parties — is there a case for an objects clause?

The key sources of uncertainty relate to the operation of the specific grounds for a compulsory licence order and the Commission has made some suggestions that should clarify and better focus those grounds in sections 6.2 and 6.3.

Nevertheless, one overarching concern that applies to the operation of the compulsory licensing provisions in general, relates to the absence of a broader objects clause in the Patents Act.

Two past inquiries recommended that a statement of objectives is introduced into the Patents Act (SCARC 2010; ACIP 2010b). ACIP (2010b, p. 5) proposed that the purpose of the Patents Act should be:

… to provide an environment that promotes Australia’s national interest and enhances the well-being of Australians by balancing the competing interests of patent rights holders, the users of technological knowledge, and Australian society as a whole.

The Australian Government (2011a) agreed to those recommendations but has not implemented them to date.

Several participants to this inquiry (for example, Civil Liberties Australia, sub. 12; Business SA, sub. 20) also argued in favour of introducing a statement of objectives into the Patents Act. Some participants (for example, Dr Hazel Moire, sub. 31), while supporting this option, argued that any statement needed to be specific to give operational guidance to the courts.

The Commission considers that introducing a general objects clause into the Patents Act could clarify the role of compulsory licensing and the considerations that should guide the court in making the order. However, there is a tradeoff between improving certainty of the parties and the need to retain flexibility to allow courts to adapt to the individual circumstances of each case. In that context, the statement proposed by ACIP has the Commission’s in-principle support.

draft Finding 2

The Australian Government has agreed to introduce a general objects clause recommended by the Advisory Council on Intellectual Property into the Patents Act 1990 (Cwlth). This could assist in clarifying the context for compulsory licensing and the considerations that should guide a court.

## 2 Competition provisions

Under s. 133(2)(b) of the Patents Act, one of the grounds for a compulsory licence order involves a competition test. The test is satisfied when:

(b) the patentee has contravened, or is contravening, Part IV of the Competition and Consumer Act 2010 or an application law (as defined in section 150A of that Act) in connection with the patent.

This section examines the current arrangements applying to the competition ground for compulsory licensing and considers potential reform options.

The other ground for granting a compulsory licence order — the ‘reasonable requirements of the public’ test — is discussed in section 6.3.

### Origins of the competition test

The competition test was introduced into the Patents Act in 2006 as a consequence of the Australian Government’s response to the recommendations of the review of intellectual property legislation by the Intellectual Property and Competition Review Committee (IPCRC 2000). The IPCRC review examined the potential rationale for compulsory licensing provisions in the context of the reasonable requirements of the public test in the Patents Act and recommended that a competition-based test replace the existing test as the sole trigger for compulsory licensing (box 2).

However, in its response to the review, the Australian Government (Attorney General’s Department nd) considered that limiting the operation of compulsory licensing to competition concerns would:

… not cover some situations where the non-working of the invention, or other effective denial of reasonable access to it, has some negative effect on the public interest which is not dependent on competition in the market.

The Commission supports this view.

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| Box 6.2 The competition test recommended by the IPCRC |
| The IPCRC recommended that the ‘reasonable requirements of the public’ test be replaced with a competition test similar to the third-party access rules under Part IIIA of the *Trade Practices Act 1974* (Cwlth):  The Committee recommends that s. 135 of the Patents Act be repealed and that s. 133(2) be amended to include an order requiring a compulsory license to be made if and only if all of the following conditions are met:  a) access to the patented invention is required for competition in the (relevant) market;  b) there is a public interest in enhanced competition in that market;  c) reasonable requirements for such access have not been met;  d) the order will have the effect of allowing these reasonable requirements to be better met; and  e) the order will not compromise the legitimate interests of the patent owner, including that owner’s right to share in the return society obtains from the owner’s invention, and to benefit from any successive invention, made within the patent term, that relies on the patent.  Such orders should be obtainable on application first to the Australian Competition Tribunal, with rights of appeal to the full Federal Court.  In elaborating on the effect of its recommendation, the IPCRC observed:  … the Committee would expect that the expression ‘required for competition in the (relevant) market’ would amount to there being no other option for competition in that market; and that the enhancement of competition that would be secured by the grant would have to be material and substantial. As a result, the test would, in these respects, be somewhat more stringent than those that have applied in the United States and in Canada. |
| *Source*: IPCRC (2000). |
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The Australian Government decided to introduce a competition-based test as an additional ground for a compulsory licence order, rather than replace the reasonable requirements of the public test. Following the endorsement of this decision by the Australian Law Reform Commission (ALRC 2004), the new ground was added to s. 133 of the Patents Act in 2006. However, rather than adopting the test proposed by the IPCRC, which focused on *enhancing competition*, the amendment presented the compulsory licence as an enforcement mechanism directed at *remedying anticompetitive behaviour*. This was achieved by defining the competition ground as a contravention of Part IV of the *Competition and Consumer Act 2010* (Cwlth) (CCA).

### Summary of the current legislative arrangements

The competition ground for invoking compulsory licensing derives from the interplay of the provisions in two pieces of legislation. Section 133 of the Patents Act introduces the ground with cross-reference to contravention of Part IV of the CCA. Consequently, it is the latter that provides the content on the conduct that could give rise to a compulsory licensing order.

#### Part IV of the CCA

Part IV of the CCA concerns restrictive trade practices. It contains several broad provisions prohibiting conduct deemed likely to lessen competition. These include:

* agreements that restrict dealings or affect competition (s. 45)
* misuse of market power (ss. 46, 46A)
* acquisitions that would result in a substantial lessening of competition (s. 50).

In addition, the CCA prohibits some specific conduct outright, including:

* agreements containing ‘cartel provisions’ (Division 1)
* price fixing between competitors (s. 45C)
* boycotts (ss. 45D, 45DA, 45DB)
* exclusive dealing (s. 47)
* resale price maintenance (s. 48).

Part IV overrides any conduct specifically authorised by the Patents Act when applying the competition provisions of the CCA. It also exempts the imposition of conditions on licences and assignments of patents, to the extent that they ‘relate to the subject matter’ of the patent, from all of the provisions of Part IV, with the exception of ss. 46 and 48 (box 6.3).

In practice, applications for compulsory licences under the competition ground would most likely fall under s. 46, because it is a section that most directly applies to refusals to licence. It also appears to be the only section under Part IV for which there is court authority to order an alternative access regime, which is effectively what a compulsory licence involves.[[9]](#footnote-9)

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| Box 6.3 CCA provisions specific to intellectual property |
| Part IV ofthe *Competition and Consumer Act 2010* (Cwlth) has two provisions that apply specifically to intellectual property. Section 51(1) states (in part):  (1) In deciding whether a person has contravened this Part, the following must be disregarded:  (a) anything specified in, and specifically authorised by:  (i) an Act (not including an Act relating to patents, trade marks, designs or copyrights); or  (ii) regulations made under such an Act.  Section 51(3) qualifies this by exempting some types of conduct from some sections of Part IV:  (3) A contravention of a provision of this Part other than section 46, 46A or 48 shall not be taken to have been committed by reason of:  (a) the imposing of, or giving effect to, a condition of:  (i) a licence granted by the proprietor, licensee or owner of a patent, of a registered design, of a copyright or of EL rights [exclusive rights] within the meaning of the *Circuit Layouts Act 1989* , or by a person who has applied for a patent or for the registration of a design; or  (ii) an assignment of a patent, of a registered design, of a copyright or of such EL rights, or of the right to apply for a patent or for the registration of a design;  to the extent that the condition relates to:  (iii) the invention to which the patent or application for a patent relates or articles made by the use of that invention … |
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It appears that Part IV of the CCA has not been widely used so far to gain access to intellectual property, although it is difficult to ascertain instances where it may have been used as a threat in negotiations. The Commission has not seen any evidence of compulsory patent licences being issued under this ground. However, s. 46 has been used several times to extract access to copyrighted information (box 6.4).

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| Box 6.4 Uses of section 46 to provide third-party access to copyright information |
| In the case of ASX Operations Pty Ltd v Pont Data Australia Pty Ltd (1990) 27 FCR 260, ASX Operations attempted to increase the price and restrict the supply of wholesale electronic information to Pont Data — its competitor in the provision of information services. The Court ruled that ASX Operations contravened s. 46 of the *Trade Practices Act 1974* (Cwlth) and ordered it to supply the information on the terms that prevailed before the contravention.  The ACCC has also previously used s. 46 to induce owners of copyrighted information to provide access to third parties. It reported that it had extracted an undertaking from Telstra to ensure access for third parties to telephone directories data after threatening litigation under s. 46 (ACCC 1997a). The ACCC negotiated a supply charge for the provision of the data and claimed that access was achieved on ‘fair and reasonable terms’. While negotiations were conducted under s. 46, the ACCC Chairman noted that ‘this outcome should be viewed in the context of the new access regime embodied in Part IIIA of the TPA’ and that the outcome established ‘a framework for access to competitors, on fair terms, in downstream markets to an information database which has many of the properties associated with an essential facility’ (ACCC 1997a).  The ACCC (1997b) also reported that it settled a case against the Commonwealth Bureau of Meteorology (BOM), where it alleged that BOM breached s. 46 because of its refusal to supply direct access to some of its specialised data services. The settlement had several elements, including:  (a) the publication of an agreed access policy document which details the basis and rights of access to information held by the Bureau and the considerations that apply; and  (b) the use of a model licence agreement which  (i) sets out conditions applicable to the access and use of information held by BOM;  (ii) provides dispute resolution procedures (including the option of mediation by an independent third party);  (iii) specifies termination grounds and rights of parties; and  (iv) provides for additional forecasting elements to be offered to the media in addition to the basic service offered by BOM whilst maintaining consistency with the comprehensive forecasting to the public through the free to air and print media. |
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#### Intellectual property is not covered by Part IIIA provisions

The CCA treats third-party access to intellectual property differently from infrastructure such as railways, where providing access to other parties would promote competition objectives.

Part IIIA of the CCA governs the provision of access to services to promote ‘effective competition in upstream and downstream markets’ (s. 44AA). The use of intellectual property, except where it is an integral but subsidiary part of the service, is explicitly excluded from the scope of Part IIIA (s. 44B).

Consequently, intellectual property receives somewhat unusual legal treatment in that the grounds for access are derived from particular conduct deemed to be a restrictive trade practice under the CCA.

### Problems with competition provisions

There are two potential problems with the current arrangements. The first arises from possible inconsistencies between the application of s. 133(2)(b) of the Patents Act and Part IV of the CCA. The second relates to the operation of s. 51(3) of the CCA.

#### Inconsistencies between the Acts

The current arrangement, where the trigger for a remedy under one piece of legislation is derived from a cross-reference to another legislation is a potential source of duplication. More importantly, in the absence of clear guidance on which legislation prevails when the respective provisions are in conflict, it can give rise to inconsistencies and uncertainties in application.

It appears that Part IV of CCA could operate independently of the Patents Act. The Australian Government clarified the scope of s. 133(2)(b) in an explanatory memorandum to the Intellectual Property Laws Amendment Bill 2006:

This provision to be inserted into the Patents Act is intended to complement the remedies available under the Trade Practices Act [now the CCA], and is not intended to limit the court's powers under the Trade Practices Act. It is intended to clarify that a compulsory licence for a patent is available as a remedy under the Patents Act for *any* breach of Part IV of the Trade Practices Act. This is in addition to any other remedies that may be available under the Trade Practices Act. (Baldwin 2006, para. 167)

The provisions of the Patents Act and CCA have some differences with respect to the rights afforded to prospective applicants, as well as the potential litigation avenues and process.

##### Prescribed period

Under s. 133 of the Patents Act, an application for a compulsory licence can only be made at the end of a ‘prescribed period’, currently defined by the Patents Regulations 1991 (Cwlth) as three years after the filing of the patent. Conversely, the CCA does not constrain the timing of actions for contravention of Part IV of the Act, potentially allowing prospective licensees to apply for an order before an equivalent application can be lodged under the Patents Act.

##### Range of remedies

While the Patents Act provides recourse to the specific order of a *non-exclusive* compulsory licence, the range of orders available under CCA is much broader, and potentially includes any form of compulsory licence. For example, under s. 80, the court can grant an injunction on the terms it considers appropriate, including ‘requiring a person to do an act or thing’.[[10]](#footnote-10) Section 87 gives the court broad powers to make any order or orders it thinks appropriate. However, whether or not a compulsory licence is ordered under those broad provisions is at the discretion of the court, and applying under the Patents Act may provide the applicant greater certainty of obtaining this particular remedy.

##### Who can seek a compulsory licence

The Patents Act does not specify who can apply for a compulsory licence following a contravention of Part IV of the CCA. In theory, this opens the course of action to any third party. In contrast, under the CCA, a compulsory licence could only be sought as a *remedy* for contravention of the Act, which means that it is only available to those who have suffered a loss from the contravention.

##### Pricing

Section 133(5)(b) of the Patents Act requires that any court-imposed payment to the patentee for a compulsory licence is ‘just and reasonable having regard to the economic value of the licence and the desirability of discouraging contraventions of Part IV of the Competition and Consumer Act 2010’. There is no equivalent provision in the CCA. Professor Stephen Corones (quoted in SELC 2006) argued that this could lead to potentially conflicting determinations depending on whether the action was brought under the CCA or the Patents Act.

##### Jurisdiction of courts

Under the Patents Act, the Federal Court is the lowest court with jurisdiction with respect to compulsory licensing matters. On the other hand, s. 86(1A) of the CCA confers jurisdiction on the FMC for ‘any matter arising under section 46 … in respect of which a civil proceeding is instituted by a person other than the Minister’.

As noted earlier, s. 46 of the CCA is likely to be of greatest relevance in the context of compulsory licence applications for contravention of Part IV of the CCA. Thus, there may be cost savings in applying for an order directly under the CCA (although, as discussed earlier, these may not be great).

#### Problems with section 51(3)

Section 51(3) has existed since the inception of the *Trade Practices Act 1974* (Cwlth). There have been two significant reviews of its operation —a review under the auspices of the Competition Principles Agreement by the National Competition Council (NCC 1999), and a review by the IPCRC (2000). While the reviews differed slightly on their recommendations for reform, they identified similar problems in the section’s operation.

##### Uncertainty of application

There is general uncertainty about the scope of s. 51(3). The section exempts conditions in a patent licence from several provisions of part IV, to the extent that the condition ‘relates to’ the invention to which the patent relates or articles made using that invention. The only reported case dealing with s. 51(3) contained comments from a single High Court judge on the meaning of the words ‘relates to’:

In bridging the different policies of the Patents Act and the Trade Practices Act, s.51(3) recognises that a patentee is justly entitled to impose conditions on the granting of a licence or assignment of a patent in order to protect the patentee’s legal monopoly … Section 51(3) determines the scope of restrictions the patentee may properly impose on the use of the patent. Conditions which seek to gain advantages collateral to the patent are not covered by s. 51(3).[[11]](#footnote-11)

However, the meaning of the words ‘relates to’ is still unclear. The Hilmer review concluded:

The true scope and hence significance of the provision remains uncertain because the important ‘relates to’ requirement has not been subject to any definitive judicial interpretation. (Hilmer, Rayner and Taperell 1993, p. 150)

The NCC (1999, p. 186), after considering several submissions to this effect, concluded that the ‘uncertainty reduces the effectiveness of section 51(3) in achieving its objectives’. The IPCRC (2000, p. 207) cited advice from the Australian Government Solicitor, which ‘highlighted the lack of clarity as to exactly which conduct is exempted’.

Consequently, both the NCC and the IPCRC recommended that the ACCC issue guidelines clarifying the operation of the section.

The Australian Government accepted the recommendation of the IPCRC. Subsequently, the ACCC reported that it was preparing the guidelines that would define:

* when intellectual property licensing and assignment conditions might be exempted under s. 51(3);
* when intellectual property licences and assignments might breach Part IV; and
* when conduct that is likely to breach the Act might be authorised. (Fels 2002, p. 9)

In its 2003-04 annual report, the ACCC noted:

The ACCC has prepared draft intellectual property guidelines that will be released for public consultation when proposed legislation to amend section 51(3) of the Trade Practice Act is introduced to parliament. (ACCC 2004, p. 103)

To date, the amendments to s. 51(3) referred to by the ACCC have not been implemented, and the guidelines have not been released.

##### Debate on the appropriateness of section 51(3)

Some commentators have argued that s. 51(3) currently has narrow application. For example, Hanks (2007) claimed that much of the relevant conduct would still be caught by ss. 46 and 48 of the CCA, to which the exemption does not apply. He also observed that s. 51(3) only covered *conditions* in licences and did not apply to *refusals* to licence.[[12]](#footnote-12)

Nevertheless, the NCC (1999, p. 149) argued that intellectual property rights should be treated similarly to other types of property rights:

… section 51(3) was most likely enacted to prevent a perceived clash between the interests of intellectual property owners and competition law … The original objective is no longer relevant. It is now accepted that intellectual property laws do not create legal or economic monopolies. Intellectual property laws create property rights and the goods and services produced using intellectual property rights compete in the marketplace with other goods and services.

Consequently, the NCC recommended an amendment of s. 51(3) to ensure that arrangements such as price-fixing, cross-licensing, and patent pooling, as well as price and quantity restrictions, were caught by the Act. This recommendation effectively amounted to a repeal of s. 51(3).

Similarly, the ACCC argued in its submission to the IPCRC (2000) and in a submission to the current ALRC review into *Copyright and the Digital Economy (*ACCC 2012) that IP rights should be treated in the same manner as other property rights and that s. 51(3) should be repealed.

However, the IPCRC (2000) concluded that the licensing of intellectual property warranted different treatment to other forms of property because:

* Initial owners of intellectual property rights are not always best placed to exploit them.
* Intellectual property rights often do not map simply onto products and complex webs of cross-licensing are required to put those rights to productive use.
* Forcing the parties to invent around existing knowledge, because they cannot obtain a licence due to competition concerns could waste more resources than would be gained from increased competition.

The IPCRC recommended replacing s. 51(3) with a new outcomes-based section stating:

… a contravention of Part IV of the TPA, or of section 4D of that Act, shall not be taken to have been committed by reason of the imposing of conditions in a licence, or the inclusion of conditions in a contract, arrangement or understanding, that relate to the subject matter of that intellectual property statute, so long as those conditions do not result, or are not likely to result in a substantial lessening of competition. The term ‘substantial lessening of competition’ is to be interpreted in a manner consistent with the case law under the TPA more generally. (IPCRC 2000, p. 215)

The Australian Government accepted this recommendation in part:

Sections 46, 46A or 48 would be treated as per the old subsection 51(3). IP licensing would be subject to the provisions of Part IV, but a contravention of the per se prohibitions of sections 45, 45A and 47, or of s4D, would instead be subject to a substantial lessening of competition test. (Attorney General’s Department nd)

To date, this amendment has not been implemented.

### Reforming the existing arrangements

#### Addressing the overlap between the CCA and the Patents Act

The cross-referencing of the CCA in the compulsory licensing provisions of the Patents Act undermines the effectiveness of the latter as a standalone ground for compulsory licensing. The CCA appears to provide broader and lower-cost access to potential applicants, as well as a superior range of remedies, although there is some uncertainty for the applicant on whether the court would choose to apply its broad discretionary powers to issue a compulsory licence. Consequently, it is unclear that an application for a compulsory licence would be made under s. 133(2)(b) of the Patents Act. At the same time, the existence of two somewhat inconsistent regimes that may allow the grant of compulsory licences could be a source of uncertainty for the parties and the courts.

The Commission has considered three options to address the duplication and potential inconsistency between CCA and the Patents Act:

1. Amend s. 133 of the Patents Act to state that it operates as a standalone code which overrides any powers under CCA to grant compulsory licences.
2. Return to the arrangements that existed prior to the amendment of the Patents Act. This would involve removal of the competition ground from the Patents Act, leaving the CCA as the only legislation that provides remedies for anticompetitive conduct.
3. Remove the competition ground from the Patents Act (as with option 2) and add a specific compulsory licence remedy provision to the CCA.

The Commission does not support the first option. This approach may resolve the inconsistencies relating to compulsory licence applications under the two Acts. However, it would not address the duplication between the Patents Act and the CCA for patent-related matters involving restrictive trade practices, where, for example, a compulsory licence is sought in addition to a remedy under the CCA. In addition, under this arrangement, compulsory licence applications for restrictive trade practices would still be subject to the ‘prescribed period’ requirement. Thus, there would be an inconsistency in the availability of different remedies depending on the timing of the application. There is no clear policy reason why restrictive trade practices matters should be governed by separate regimes, depending on the remedy. Similarly, there is no clear rationale for imposing prescriptive rules on when particular remedies for contravention of Part IV of the CCA become available.[[13]](#footnote-13)

Making s. 133 of the Patents Act a standalone code would also not address the apparent anomaly under s. 133(2)(b) that allows a person who was not affected by the contravention of Part IV of the CCA to apply for a compulsory licence. In this context, the remedy provisions of the CCA are a more appropriate mechanism.

The second option would result in a more streamlined regime, while also limiting the scope for parties not affected by the contravention of Part IV of the CCA obtaining compulsory licences under that ground. However, this approach may leave some uncertainty for the parties over whether the court would use its discretion to order compulsory licences under the broad remedy provisions of the CCA.

Consequently, the Commission supports the third option. An explicit recognition of compulsory licences in the remedy provisions of the CCA would allow plaintiffs to rely on a specific provision and reduce uncertainty for both parties.

To ensure that compulsory licence orders under the CCA contribute to the general body of precedent on compulsory licensing, it is desirable that the new remedy provision in the CCA imposes the same requirements on compulsory licence orders as apply in the Patents Act. Specifically, the new provision should contain the requirement of non‑exclusivity (s. 133(3)(a) of the Patents Act), impose limits on subsequent assignments of the licence (s. 133(3)(b)) and provide for compensation determined in the same manner as under the Patents Act.

draft Recommendation 1

The Australian Government should seek to remove s. 133(2)(b) from the Patents Act 1990 (Cwlth), so that a compulsory licence order based on restrictive trade practices of the patent holder is only available under the Competition and Consumer Act 2010 (Cwlth). The remedy provisions in the Competition and Consumer Act should be amended to explicitly recognise compulsory licence orders to work a patented invention as a remedy under the Act. The new remedy provision should specify that an order must:

* not give the licensee or a person authorised by the licensee, the exclusive right to work the patented invention
* be assignable only in connection with an enterprise or goodwill in connection with which the licence is used.

The new provision should also contain a clause specifying the basis for determining remuneration, which is identical to the corresponding clause in the Patents Act.

#### Addressing the problems with section 51(3)

The Commission has examined several options for reform of s. 51(3):

1. Repeal s. 51(3) or amend it in accordance with the recommendation of the NCC (1999).

2. Amend s. 51(3) in accordance with the recommendations of the IPCRC (2000).

3. Amend s. 51(3) in accordance with the Australian Government’s response to the IPCRC (2000). This would entail removing the exemption from the per se prohibitions under ss. 45, 45A and 47 of the CCA, where the licence conditions substantially lessen competition.

4. Retain the status quo.

While s. 51(3) could potentially play a role in compulsory licence disputes, its scope is broader than those matters. The section also covers what would otherwise be offences under the CCA relating to voluntary licensing of patents, trade marks and designs — issues which are outside the terms of reference of this inquiry.

Nevertheless, the Commission has not received any evidence that this provision played a material role in decisions that could potentially lead to a compulsory licence application. More broadly, since its inception, s. 51(3) has rarely been used in any context — in part due to the uncertainty surrounding its purpose and application.

More importantly, s. 51(3) creates a unique competition law arrangement for intellectual property. Generally, to the extent that there are competition issues warranting government intervention, it is desirable to treat them similarly across the different sources of market power. The alternative approach of customising competition law for different sources of market power could generate economic distortions, by inefficiently encouraging some types of behaviour over others.

Regibeau and Rockett (2007, p. 545) argued that intellectual property should not receive special consideration because of its ‘contribution to the creation and diffusion of knowledge’ and that ‘the specificity of intellectual property assets … [should be] accounted for in the type of property rights attached to them’.

Section 51(3) has no exact analogues in EU or US legislation, although EU legislation provides some generic exemptions in the application of competition law, which could apply to intellectual property.[[14]](#footnote-14) The US *Antitrust Guidelines for the Licensing of Intellectual Property* (US Department of Justice and the Federal Trade Commission 1995) state:

The Agencies [U.S. Department of Justice and the Federal Trade Commission] apply the same general antitrust principles to conduct involving intellectual property that they apply to conduct involving any other form of tangible or intangible property … As with other forms of private property, certain types of conduct with respect to intellectual property may have anticompetitive effects against which the antitrust laws can and do protect. Intellectual property is thus neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.

In its submission into the ALRC’s reviewof *Copyright in the Digital Economy*, the ACCC (2012, p. 5) observed:

… in other jurisdictions, such as the United States, IP rights are subject to the same competition laws as all other property rights … in these jurisdictions, there has been neither an erosion of IP rights for creators nor any apparent impact on the incentives for the production of copyright material.

The Commission notes the IPCRC’s reasons for its recommendation not to repeal the section and its conclusion that the per se prohibitions in the CCA could discourage some arrangements that were efficient (even if they reduced competition). However, Part VII of the CCA, which allows the ACCC to authorise most conduct prohibited under Part IV, when there is a net public benefit, is a mechanism designed to address such circumstances. If that arrangement does not operate effectively, this would be an argument for its reform, rather than for creating a unique regime for intellectual property.

In sum, while s. 51(3) appears to play a relatively minor role in compulsory licensing, and the issue is broader than the terms of reference for this inquiry, the Commission agrees with the ACCC that the case for retaining the section is weak.

draft Finding 3

Section 51(3) of the Competition and Consumer Act 2010 (Cwlth) — which exempts certain types of conduct involving intellectual property from some provisions of the Act — is unlikely to promote efficient outcomes with respect to access to patented inventions. The Commission is mindful that s. 51(3) addresses a range of intellectual property issues, but in respect to access to patents, sees no reason why it should not be repealed.

#### Should the application of the competition law to the licensing of intellectual property be clarified?

Irrespective of whether s. 51(3) is retained, repealed, or amended, there is a strong case for clarifying the application of Part IV of the CCA to the licensing of intellectual property.

As discussed above, the uncertainty associated with the scope and operation of s. 51(3) has been noted in several reviews. On the other hand, any change to the existing arrangements would itself generate some uncertainty for the parties. In a recent submission to the ALRC’s review into *Copyright and the Digital Economy*, the ACCC observed:

… repeal of section 51(3) may give rise to some initial uncertainty for some owners of IP rights as to whether their licensing and assignment arrangements may fall within the ambit of Part IV of the CCA. The ACCC considers that providing guidelines which clarify the types of behaviour likely to result in a breach of the CCA’s provisions will assist in resolving this transitional issue. (ACCC 2012, p. 35)

The Commission agrees with the ACCC and supports the development of guidelines clarifying the operation of Part IV of the CCA in relation to the licensing of intellectual property. The key considerations are the focus and scope of the guidelines, as well as their status in law. Hanks (2007) criticised the IPCRC proposal for:

* unclear focus — the guidelines were to clarify the ACCC’s enforcement policy, but also to provide sufficient direction to IP owners on what types of behaviour would substantially lessen competition; the wide consultation process risked generating ‘disembodied guidelines’ that would not fulfil their purpose of clarifying the ACCC enforcement policy
* absence of clear authority underpinning the guidelines — the guidelines issued by the ACCC would only have a ‘ring of authority’ if they concern ACCC policy, rather than being a general treatise on competition law.

Several other jurisdictions have issued guidelines clarifying the application of competition law to intellectual property, including the European Union, United States and Canada (European Commission 2004; US Department of Justice and the Federal Trade Commission 1995; Competition Bureau Canada 2000).

Notably, the US guidelines are generally well regarded in the literature and could be used as a starting point.

## 3 Reasonable requirements of the public

Even if it operates effectively, the current competition test would not cover all circumstances in which a compulsory licence could promote public welfare. Part IV of the CCA focuses on *remedying* anticompetitive conduct, rather than *promoting* competition. Specifically, s. 46 of the CCA requires an anticompetitive *purpose* in addition to the exercise of market power by the patent holder. Consequently, the current test would not apply to situations where the patentee exercises their market power without a goal of damaging their competitor or preventing or deterring competition, even if the outcomes of such behaviour are not in the public interest.

In discussing the effectiveness of s. 46 in operating as an access regime, the Hilmer report (Hilmer, Rayner and Taperell 1993, pp. 243, 245) noted the ‘uncertainties and delays associated with reliance on the general competitive conduct rules’ and specifically, ‘the difficulties in demonstrating a proscribed purpose’. The Commission has previously found:

… as a stand-alone mechanism for providing efficient access to essential infrastructure services, there remain considerable doubts about the efficacy of Section 46 specifically and Part IV more generally. This is particularly the case as Australian trade practices law does not normally provide remedies against firms which are able to earn monopoly rents … Further, it is significant that no major developed country relies solely on general competitive conduct rules in this area … (PC 2001, p. 112)

### The current ‘reasonable requirements of the public’ test

Under s. 133(2)(a) of the Patents Act, a court may issue a compulsory licence where it is satisfied that the ‘reasonable requirements of the public’ with respect to the patented invention have not been satisfied (box 6.5). This is conditional on the applicant trying for a ‘reasonable period’ to obtain from the patentee an authorisation to work the invention on ‘reasonable terms and conditions’. Additionally, the patentee must be unable to provide a reasonable explanation for any failure to exploit the patent. Section 135(1) of the Patents Act provides guidelines for the interpretation of the ‘reasonable requirements’ of the public.

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| Box 6.5 ‘Reasonable requirements of the public’ test |
| The Federal Court may order a patentee to grant an applicant a licence to work a patented invention on the grounds that the ‘reasonable requirements of the public’ are not being satisfied. The criteria for making this order are specified in s. 133(2)(a) of the *Patents Act 1990* (Cwlth):  (a) all the following conditions exist:  (i) the applicant has tried for a reasonable period, but without success, to obtain from the patentee an authorisation to work the invention on reasonable terms and conditions;  (ii) the reasonable requirements of the public with respect to the patented invention have not been satisfied;  (iii) the patentee has given no satisfactory reason for failing to exploit the patent.  Guidance on the reasonable requirements of the public is given in s. 135(1):  (1) … the reasonable requirements of the public with respect to a patented invention are to be taken not to have been satisfied if:  (a) an existing trade or industry in Australia, or the establishment of a new trade or industry in Australia, is unfairly prejudiced, or the demand in Australia for the patented product, or for a product resulting from the patented process, is not reasonably met, because of the patentee’s failure:  (i) to manufacture the patented product to an adequate extent, and supply it on reasonable terms; or  (ii) to manufacture, to an adequate extent, a part of the patented product that is necessary for the efficient working of the product, and supply the part on reasonable terms; or  (iii) to carry on the patented process to a reasonable extent; or  (iv) to grant licences on reasonable terms; or  (b) a trade or industry in Australia is unfairly prejudiced by the conditions attached by the patentee (whether before or after the commencing day) to the purchase, hire or use of the patented product, the use or working of the patented process; or  (c) if the patented invention is not being worked in Australia on a commercial scale, but is capable of being worked in Australia. |
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### Problems with the test

#### Unclear purpose

As noted earlier, IPCRC (2000, p. 162) concluded that instances where compulsory access is warranted include ‘situations in which bargaining between parties is not able to achieve an outcome or, more importantly, situations in which the access right acts as a pro-competitive remedy that tempers the exclusivity that the patent right primarily provides’. To some degree, ss. 133(2)(a) and 135 could be construed as promoting a competition objective. However, this objective is not explicit and any interpretation of the purpose of the section is further clouded by references to protection of domestic industries and by the lack of jurisprudence to give meaning to the words of the sections (discussed below).

This lack of clarity of purpose is likely to undermine the effectiveness of this ground for compulsory licensing in achieving its objectives.

#### Uncertainty of language

The concept of ‘reasonable requirements of the public’, as it is defined in the Patents Act, does not appear to have direct analogues in other Australian jurisprudence. Given the limited case history of compulsory licensing in Australia, there is limited guidance on how the court might interpret the ‘reasonable requirements’ of the public. This is in contrast to the concept of ‘public interest’ which is commonly applied across a range of areas. While there are some differences depending on the context, the courts are able to draw on some synergies from other applications of the test.

Lawson (2008) suggested that the construction of the provision implies that one or more of paragraphs (a), (b) and (c) of s. 135 must be established before the reasonable requirements of the public can be considered to have not been satisfied. In addition, there are a number of terms in the test that may be open to varying interpretations, potentially creating uncertainty for prospective compulsory licence applicants. This uncertainty has been noted by a number of commentators:

The *Patents Act* does not provide any guidance regarding what would be considered a ‘satisfactory reason for failing to exploit the patent’. This would be a matter for the court to determine. (ALRC 2004, p. 618)

The phrases ‘reasonable period’ and ‘reasonable terms and conditions’ are not defined in the *Patents Act* or considered in any Australian cases ... the necessary threshold of reasonableness is unclear, and predicting how a court might assess the threshold is uncertain. (Lawson 2008, p. 132)

The uncertainty may reduce the incentive for firms to apply for a compulsory licence, even where they are experiencing considerable difficulty accessing a patent. As has been noted by the ALRC (2004, p. 624):

… the existing lack of clarity in the ‘reasonable requirements of the public’ test may be one reason why few compulsory licences have been sought, or granted, under the *Patents Act*.

#### Protectionist language

The language contained in s. 135(1) of the Patents Act (box 6.5) appears to conflate the interests of individual trades or industries with those of the broader public. For instance, s. 135(1)(a) suggests that the reasonable requirements of the public are taken to be satisfied if ‘an existing trade or industry in Australia, or the establishment of a new trade or industry in Australia, is unfairly prejudiced’ by non‑access to a patented invention. Section 135(1)(b) covers instances where the patentee is willing to license, but the conditions of licence are considered to be ‘unfairly prejudiced’ to Australian trade or industry.

The IPCRC observed that, while there is a case for compulsory licensing provisions, the wording of the reasonable requirements of the public test is outdated:

… there may be instances where a compulsory access right is warranted. These include situations in which bargaining between parties is not able to achieve an outcome or, more importantly, situations in which the access right acts as a pro-competitive remedy that tempers the exclusivity that the patent right primarily provides ... Indeed, the threat of compulsory licensing may lead to innovations being worked sooner and more widely than they would otherwise have been. The current terms of the section seem poorly aligned to securing these goals. Rather, they hark back to a period where the primary concern was the promotion of domestic industry, rather than securing the best use of resources and achieving high levels of productivity. Moreover, they lack an explicit competition test, and do not seem to allow for the legitimate interests of the rights owner to be adequately protected. (IPCRC 2000, p. 162)

The Commission considers that the conflation of the reasonable requirements of the public with the interests of Australian industry is problematic. The purpose of the reasonable requirements of the public test should not be to protect the interest of a particular trade or industry, if this comes at a net cost to the broader community. For example, there may be instances where providing a compulsory licence has a benefit to a trade or industry today, but compromises community-wide welfare over time by reducing the incentive of foreign firms to market their products in Australia.

To the extent that protecting the interests of a particular Australian industry is desirable for economic efficiency, it is more appropriate to consider this as part of a broader public interest test, than treating the interests of the industry as an end goal.

draft Finding 4

The current language in s. 135 of the Patents Act 1990 (Cwlth), which conflates the reasonable requirements of the public with the interests of Australian industry, is inconsistent with promoting community-wide welfare.

### The Commission’s conclusions on the reasonable requirements of the public test

Determining whether the reasonable requirements of the public test is likely to be efficient and effective is difficult. With a limited case history, any assessment is largely reduced to speculation about how the court may interpret the provisions of the Patents Act.

Nevertheless, the Commission has identified above some problems, which are likely to compromise the provision’s effectiveness and efficiency. First, the test appears to stand alone in Australian legislation or Common Law, rather than being consistent with and leveraging off comparable provisions in other laws. This increases the uncertainty for the parties on how the provisions would be interpreted and hence, the costs of a compulsory licensing dispute. Second, s. 135 appears to pursue protectionist objectives, which may be inconsistent with community-wide welfare.

As also noted above, the competition test recommended in section 6.2 would not address all circumstances where a compulsory licence may promote the public interest. Thus, rather than simply repealing the reasonable requirements of the public provisions, they should be replaced with a new test based on the public interest.

### A new public interest ground

As noted earlier, the Australian Government elected not to adopt the competition ground proposed by the IPCRC (2000). As a result, third-party access to patents is governed by CCA provisions that do not have access as their primary function.

There is merit in replacing the current reasonable requirements ground with a new ground for compulsory licensing of patents, which is based on public interest considerations. In addition to addressing the shortcomings identified earlier, this would better complement the current competition ground.

#### Essential facilities doctrine — application to intellectual property in other countries

The principle that a firm’s general right to refuse to deal with others may need to be limited where such dealing is essential for competition, is commonly referred to as the ‘essential facilities doctrine’.

Internationally, some jurisdictions have applied this doctrine to regulate third‑party access to intellectual property, most notably the European Union (box 6.6). In the United States, several court decisions indicated that the doctrine applies to intellectual property, particularly where the intellectual property right is used by the owner to extend its market power beyond the original scope of the right (Pitofsky 2002).

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| Box 6.6 Intellectual property and the essential facilities doctrine in the European Union |
| In the European Union, Article 82 of the EC Treaty formulates the general ‘essential facilities doctrine’:  Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States.  Such abuse may, in particular, consist in:  (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;  (b) limiting production, markets or technical development to the prejudice of consumers;  (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;  (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.  The doctrine of ‘essential facilities’ has been applied to intellectual property. The recent case of *IMS Health* [2004] ECR I-5039 established that a refusal to license intellectual property may constitute ‘abuse of a dominant position’ in exceptional circumstances, provided the following conditions are satisfied:   1. the refusal to license is ‘preventing the emergence of a new product for which there is a potential consumer demand’ 2. the refusal is ‘unjustified’ 3. the refusal ‘excludes competition on a secondary market’ (Drexl 2005). |
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#### Should the new ground draw on existing access provisions of the CCA?

In arriving at its recommendation on the new ground for compulsory licensing, the IPCRC considered housing the test within Part IIIA of the *Trade Practices Act 1974* (Cwlth) (by removing the exemption for intellectual property in s. 44B). It concluded that the design of Part IIIA was poorly suited to handle intellectual property rights, because those rights did not fit into the ‘facility’ and ‘service’ concepts underpinning the relevant sections. Nevertheless, it sought to make its test generally consistent with Part IIIA.

The Commission agrees with the principle that the new ground should, where possible, utilise the synergies from existing jurisprudence. At the same time, the contextual differences between intellectual property and infrastructure that is subject to access regulation also need to be recognised. Thus, while the test proposed below utilises some of the elements of existing access regimes, it does not map them directly.

#### What circumstances should the access regime target?

As discussed in section 6.2, s. 46 of the CCA does not cover circumstances where there is no anticompetitive purpose in the patentee’s actions, but granting access to another party would, nevertheless, promote the public interest. For example, this may include situations where a patent confers on the patentee monopoly power in a downstream or upstream market and the patentee exercises that power to restrict the supply of the good or service and/or raise prices. It may also include a situation where the patentee is not working the invention in Australia and there are no substitute products available — that is the existence of a patent is blocking the emergence of a new market.

Such circumstances should be recognised in a new threshold requirement: ‘Australian demand for a product or service is not being met on reasonable terms and access to the patented invention is essential for meeting this demand’.

To ensure that the above criterion is an effective safeguard against trivial or vexatious applications, the Commission considers that it should be strictly applied. Specifically, to establish that Australian demand is not being met on reasonable terms, at a minimum, the applicant would need to show that the patentee is taking advantage of a ‘substantial degree of market power’ as defined in s. 46 of the CCA.

To satisfy the second element of the test, the access seeker must show that it had no other economically viable option to produce the relevant good or service — the fact that access to the patented invention is marginally less costly than other options should not be sufficient.

#### The public interest requirement

The essential facilities doctrine has been criticised for being generally incompatible with the objectives of IP law. Hoad (2003, p. 33, quoting Lipsky and Sidak 1999, p. 1219) argued:

The essential facilities doctrine ... is most likely to condemn intellectual property in precisely those circumstances in which this result is least defensible: Under the essential facilities doctrine, the more an invention is unique, valuable, and difficult to duplicate, the greater is the obligation to share it. In short, essential facilities principles are inherently inconsistent with intellectual property protection.

However, this need not be the case if the tradeoffs between the rights of the patent holder and the interests of the broader public are adequately recognised in an explicit public interest test and, where a licence is ordered, in the terms of the order.

In this context, it is important to clarify the main tradeoffs involved in determining the public interest. Specifically, it should involve considerations of:

* costs to the patentee from providing access to the invention — these include lost profits from increased competition, the cost of monitoring and enforcing compliance with the licence agreement, and any spillover costs (such as potential negative effects to reputation)
* benefits to the licensee and consumers from access to the invention
* longer-term impacts on community wellbeing — these include both negative impacts, such as any resulting disincentives to invest in innovation and to disclose it through a patent, and positive impacts from increased competition and from follow-on innovations.

##### Pricing and the public interest

The terms of any compulsory licence, including the level of compensation to the patentee need to be consistent with the public interest considerations outlined above.

Several participants argued that it was desirable to introduce pricing guidelines to assist the court in determining compulsory licence terms. Telstra Corporation argued that additional guidance would provide certainty for both patentees and prospective licensees and proposed:

The Patents Act should include more detailed guidance regarding the criteria for courts to consider in determining the terms of compulsory licences. These should include consideration of the revenue of the product and the number of patents that apply. The benefit of such additional guidance is to provide certainty for both patentees and prospective licensees. (sub. 8, p. 5)

Other participants (for example, CSIRO, sub. 26; Law Council of Australia, sub. 32) argued that courts routinely make decisions on compensation for intellectual property rights and can draw on Australian jurisprudence on patent infringements, international decisions on compulsory licences, as well as market data on voluntary licensing. However, such data may not be applicable to compulsory licence disputes. For example, the criteria for determining relief for patent infringement in s. 122(1A) of the Patents Act include (among others):

(a) the flagrancy of the infringement; and

(b) the need to deter similar infringements of [patents](http://www.austlii.edu.au/au/legis/cth/consol_act/pa1990109/s178.html#patent); and

(c) the conduct of the party that infringed the [patent](http://www.austlii.edu.au/au/legis/cth/consol_act/pa1990109/s178.html#patent) …

Such considerations would be irrelevant in the case of a compulsory licence issued under the proposed public interest test.

Nielsen and Nicol (2008) reported considerable variance in the manner in which courts awarded compensation for compulsory licences in the United States and United Kingdom. They also observed that in Australia:

… in the few successful cases brought under [s. 46](http://www.austlii.edu.au/au/legis/cth/consol_act/pa1990109/s46.html) of the TPA, there has been a marked reluctance on the part of the courts to impose a price upon the parties where there has been no previous dealing. Even where there has been some dealing between the parties the matter is not clear cut. In Pont Data Australia Pty Ltd v ASX Operations Pty Ltd, there was marked divergence between the trial judge and the Full Court of the Federal Court on the issue of the price at which copyrighted information should be supplied by the unsuccessful respondent. (Nielsen and Nicol 2008, pp. 353-4)

There is merit in providing some guidance on pricing. As well as reducing uncertainty and costs of the parties, it could improve the efficiency of the outcomes, by ensuring that the relevant considerations are taken into account by the court. However, the potential scenarios in which a compulsory licence may be ordered are too diverse to have a useable set of specific one-size-fits-all criteria.

To that end, it is desirable to have a broad set of principles that allow any order to be adapted to the individual circumstances of the case. The key consideration that should be recognised in the principles is the need to balance the right of the patentee to obtain an appropriate economic return on their investment, and the rights of the public to the invention being exploited efficiently.

To improve certainty for the parties, the pricing principles should be consistent, where possible, with those adopted in Part IIIA of the CCA (box 6.7).

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| Box 6.7 Pricing principles for Part IIIA access disputes |
| Section 44ZZCA of the Competition and Consumer Act 2010 (Cwlth) outlines the pricing principles for access disputes:  The pricing principles relating to the [price](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s95a.html#price) of [access](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s152ac.html#access) to a [service](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s44b.html#service) are:  (a) that regulated [access](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s152ac.html#access) [prices](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s95a.html#price) should:  (i) be set so as to generate expected revenue for a regulated [service](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s44b.html#service) or [services](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s95a.html#services) that is at least sufficient to meet the efficient costs of providing [access](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s152ac.html#access) to the regulated [service](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s44b.html#service) or [services](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s95a.html#services); and  (ii) include a return on investment commensurate with the regulatory and commercial risks involved; and  (b) that the [access](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s152ac.html#access) [price](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s95a.html#price) structures should:  (i) allow multi-part pricing and [price](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s95a.html#price) discrimination when it aids efficiency; and  (ii) not allow a vertically integrated [access](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s152ac.html#access) [provider](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s44b.html#provider) to set terms and conditions that discriminate in favour of its downstream operations, except to the extent that the cost of providing [access](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s152ac.html#access) to other operators is higher; and  (c) that [access](http://www.austlii.edu.au/au/legis/cth/consol_act/caca2010265/s152ac.html#access) pricing regimes should provide incentives to reduce costs or otherwise improve productivity. |
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draft Recommendation 2

The Australian Government should seek to replace the current ‘reasonable requirements of the public’ test with a new public interest test for compulsory licensing of patents. The new test should specify that a compulsory licence would be available if the following conditions are met:

(a) Australian demand for a product or service is not being met on reasonable terms, and access to the patented invention is essential for meeting this demand.

(b) The applicant has tried for a reasonable period, but without success, to obtain access from the patentee on reasonable terms and conditions.

(c) There is a public interest in providing access to the applicant, having regard to:

* costs to the patentee from granting access to the patented invention
* benefits to consumers and the licensee from the licensee’s access to the invention
* longer-term impacts on community wellbeing.

(d) The terms of any compulsory licence order are consistent with public interest, having regard to:

* the right of the patentee to obtain a return on investment commensurate with the regulatory and commercial risks involved
* the right of the public to the efficient exploitation of the invention.

## 4 Interaction with international agreements

The operation of compulsory licensing provisions in Australia is further complicated by Australia’s international treaty obligations. Section 136 of the Patents Act directs the Federal Court not to make a compulsory licensing order that is inconsistent with Australia’s international treaties. Australia is a signatory to a number of international agreements that contain specific commitments regarding compulsory licensing. They include: the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights 1994 (TRIPS); the Paris Convention for the Protection of Industrial Property 1883 (Paris Convention); and the Australia–United States Free Trade Agreement (AUSFTA).

The key international agreements authorising compulsory licensing — TRIPS and the Paris Convention — essentially place no limits on the grounds for granting a compulsory licence (appendix D).

In contrast, AUSFTA may constrain the circumstances in which the mechanism can be applied.

### Effect of AUSFTA on current compulsory licensing provisions

Some commentators (DeBoos 2012; Lawson 2008) argued that there is a potential inconsistency between Article 17.9.7 of AUSFTA (box 6.8) and the ‘reasonable requirements of the public’ test in the Patents Act.

The wording of AUSFTA appears to limit non-voluntary access to patents to, under paragraph 17.9.7(a), the competition test for compulsory licensing and, under paragraph 17.9.7(b), Crown use (as discussed in chapter 7) (Lawson 2008).

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| Box 6.8 Australia‑United States Free Trade Agreement |
| Article 17.9.7 of AUSFTA limits the use of non‑voluntary licensing to the following circumstances:   * 1. 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; or   2. in cases of public non‑commercial use, or other circumstances of extreme urgency, provided that:   3. the Party shall limit such use to use by the government or third persons authorised by the government;   4. the Party shall ensure that the patent owner is provided with reasonable compensation for such use; and   5. the Party may not require the patent holder to provide undisclosed information or technical know‑how related to the patented invention that has been authorised for use in accordance with this paragraph. |
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AUSFTA does not appear to expressly contain any provision that corresponds to Australia’s reasonable requirements of the public test. This has been previously noted by the ALRC (2004, p. 617):

On its face, AUSFTA appears to exclude the grant of a compulsory licence where the ‘reasonable requirements of the public’ have not been satisfied in ways that are not related to competition within a market, and do not involve non‑commercial use.

Likewise, Nielsen and Nicol (2008) observed that:

... now that we have a specific anticompetitive conduct ground [for compulsory licensing], the legitimacy of the reasonable requirements [of the public] test becomes more tenuous. While there is some scope for establishing anti‑competitive behaviour at common law, compulsory licensing on this basis would seem to be precluded by the requirement in art 17.9.7(a) of AUSFTA ... The mystery deepens as to the true scope of the reasonable requirements test!

In contrast to this view, the Australian Government has advised that AUSFTA is consistent with Australian law:

Article 17.9 also contains a number of provisions relating to the procedure for ... compulsory licensing which generally reflect current Australian law. (DFAT 2004, p. 100)

IP Australia, in its advice to the Senate Economics Legislation Committee inquiry into the Intellectual Property Laws Amendment Bill, stated:

In AUSFTA, the term ‘anti-competitive practices’ is interpreted broadly and covers the present compulsory licence provisions under the Patents Act. These provisions provide for the grant of a compulsory licence if, among other conditions, ‘the reasonable requirements of the public’ have not been met.

As such, there is no conflict with section 136 of the Patents Act nor is there any issue of preferential or different treatment of US persons. (SELC 2006, attachment, p. 14)

On the other hand, the Australian Government has previously argued that it is important to retain the reasonable requirements of the public test, along with a competition test, as its removal:

... would limit the grounds on which to obtain a compulsory licence to the situation where access to the patented technology is required to ensure competition in the (relevant) market, rather than the broader grounds based on the ‘reasonable requirements of the public.’ (Attorney General’s Department nd)

In light of the potential inconsistency with AUSFTA, the legality of the reasonable requirements of the public test has been questioned by some commentators:

The reasonable requirements of the public test was retained during the process of amendment [of the Patents Act], but the subsequent conclusion of AUSFTA throws into doubt the legality of this test. (Nielsen and Nicol 2008, p. 188)

Notwithstanding the above, the compatibility of AUSFTA with the reasonable requirements of the public provisions of the Patents Act remains an issue for the courts to determine. This may reduce the efficiency of the compulsory licensing mechanism.

draft Finding 5

There is an apparent inconsistency between the grounds for issuing a compulsory licence in the Australia–United States Free Trade Agreement and the reasonable requirements of the public test in the Patents Act 1990 (Cwlth).

### Section 136 undermines the efficiency of compulsory licensing

More broadly, the Commission considers s. 136 of the Patents Act problematic, because it reduces the transparency and scrutiny of the legislative process and can also be a source of uncertainty for the parties.

##### Reduced transparency and scrutiny

On a literal reading, s. 136 prevents the court from making an order that is inconsistent with any international treaty, whether or not that treaty has been incorporated into Australian legislation by the Parliament. This appears to vest a law‑making power with the Executive and thus would contradict the general principle enunciated by Justice Gummow in 1992 in *Minister for Foreign Affairs and Trade v Magno*:[[15]](#footnote-15)

It is for Parliament not the Executive to make or alter domestic law. Legislation is necessary to render international obligations enforceable in the courts.

In addition to eroding the line between the functions of the different branches of government, this arrangement is likely to be less transparent and subject to lower levels of scrutiny than if the changes to the Patents Act were legislated by the Parliament. While there are several requirements in the current treaty-making process aimed at increasing transparency and scrutiny,[[16]](#footnote-16) there is a risk that some lower-level or indirect impacts could be overlooked, particularly if the treaty has a broad scope. Notably, in the case of AUSFTA, the issue of potential inconsistency with s. 133(1) of the Patents Act was not raised in consultations conducted by the Joint Standing Committee on Treaties and was not discussed in the Committee’s report. Transparency and Parliamentary scrutiny would be improved if specific provisions of a treaty only became binding after being explicitly incorporated into Australian legislation.

##### Reduced certainty for the parties

Section 136 is also likely to be a source of uncertainty. First, it widens the scope of legal inquiry that the parties would need to undertake to prosecute their case. In addition to interpreting the requirements within the Patents Act, the parties and the courts would have to consider the applicability of a potentially broad range of international treaties.

Second, s. 136 requires the court to interpret the language in a treaty that may not be compatible or reconcilable with the language in Australian legislation. In a workshop hosted by the Department of Foreign Affairs and Trade, Jennings (2003) observed:

The preferred method of giving effect to treaties is to translate the relevant provisions of the treaty into traditional legislative language. In so doing, a statute might refer to particular terms in a treaty but use the language of domestic law to give effect to the majority of obligations ... This method introduces an element of certainty into the implementation of treaties which is perhaps lacking in simply giving the treaties the force of law or in stating that a statute is subject to Australia’s international treaty obligations.

##### Potential redundancy

Finally, there is also a question of whether s. 136 is redundant, given the availability of the option of incorporating the relevant treaty provisions into the Patents Act. For example, AUSFTA was implemented by enacting the *US Free Trade Agreement Implementation Act 2004* (Cwlth). Schedule 8 of that Act introduced several amendments to the Patents Act.

In sum, the Commission considers that s. 136 of the Patents Act should be repealed and that relevant future treaty obligations should be incorporated directly into the Patents Act or its subordinate legislation.

draft Recommendation 3

The Australian Government should seek to repeal s. 136 of the Patents Act 1990 (Cwlth). Current and future international treaty obligations should be incorporated directly into the Patents Act 1990 (Cwlth) or its subordinate legislation.

## 5 Dependent patent ground — is it still needed?

Section 133(3B) of the Patents Act specifies an additional ‘dependent patent’ ground for compulsory licensing (box 6.9). In its current form, the provision only applies to applicants for a compulsory licence under s133(2), who would be unable to work that licence without infringing another patent. The provision does not operate as a standalone ground, and appears to grant applicants for a compulsory licence under s. 133(2) more rights than, for example, the patentee against whom that licence is being sought.

Some commentators have argued that this outcome was an anomaly caused by poor drafting of the section. IPTA and FICPI argued:

… there is an error in the wording of s.133(3B). This provision is clearly intended to cover the situation where a patentee cannot work the invention because of another patent owned by another party, which is the situation referred to in Article 31 of TRIPS. (sub. 18, p. 16)

They further proposed an amendment to the provision to make dependent patents a standalone ground for compulsory licensing in the Patents Act.

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| Box 6.9 Dependent patent provision in the Patents Act |
| Section 133(3B) of the Patents Act states:  If the patented invention cannot be worked by the applicant [for a compulsory licence] without his or her infringing another patent:  (a) the court is to make the order only if the court is further satisfied that the patented invention involves an important technical advance of considerable economic significance on the invention (other invention) to which the other patent relates; and  (b) the court must further order that the patentee of the other invention:  (i) must grant to the applicant a licence to work the other invention insofar as is necessary to work the patented invention; and  (ii) is to be granted, if he or she so requires, a cross-licence on reasonable terms to work the patented invention; and  (c) the court must direct that the licence granted by the patentee of the other invention may be assigned by the applicant:  (i) only if he or she assigns the licence granted in respect of the patented invention; and  (ii) only to the assignee of that licence. |
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The ALRC (2004) has previously considered this option. It acknowledged the criticism of current arrangements and noted that in the United Kingdom dependent patents were a separate ground for compulsory licensing. However, it stated that participants’ responses to the question of whether a similar arrangement should apply in Australia were mixed. The ALRC (2004, pp. 77-78) observed that while some supported this approach, several submissions:

… argued that such a provision would be unnecessary, because dependent patents are already adequately covered by the ‘reasonable requirements of the public’ test or that it would be undesirable, because it would undermine the value of the original patent granted, and the patent system.

The ALRC concluded that reform of the provision was not necessary because the reasonable requirements of the public test already covered the circumstances in which a dependent patent situation may arise.

The Commission, similarly, considers that its recommended competition and public interest tests would make a separate dependent patent ground redundant. As discussed earlier, the only circumstances in which a compulsory licence would be an effective mechanism for improving public wellbeing relate to competition concerns.

That said, there is merit in retaining the existing arrangement, where a compulsory licence for a dependent patent is available on an expedited basis, once the threshold public interest test is passed in relation to the primary compulsory licence application. This would reduce the cost of navigating a patent thicket, while retaining the integrity of the public interest ground.

draft Finding 6

It is generally in the parties’ best interest to negotiate a voluntary licence in a dependent patent situation. A separate dependent patent ground is unnecessary, where robust competition and public interest grounds for compulsory licensing already exist.

1. The above fees, however, represent only a fraction of the actual costs of the court. The Commission has estimated that in 2010-11, the Federal Court recovered around 11 per cent of its civil recurrent expenditure through court fees (SCRGSP 2012). [↑](#footnote-ref-1)
2. [1969] HCA 61. [↑](#footnote-ref-2)
3. While, they both pursue the same objective, conciliation differs slightly from mediation in that the intermediary between the parties plays a more active role in advising the parties about the issues and possible outcomes (NADRAC nd). [↑](#footnote-ref-3)
4. Similar provisions exist in the *Family Law Act 1975* (Cwlth) and the *Federal Magistrates Court Act 1999* (Cwlth). The *Administrative Appeals Tribunal Act 1975* (Cwlth) also does not give the President of the Tribunal powers to direct a proceeding to arbitration (NADRAC 2009). [↑](#footnote-ref-4)
5. For example, in the United Kingdom, Canada, Japan and India. [↑](#footnote-ref-5)
6. This overstates the number of matters considered by the Tribunal, as some matters involved more than one decision. [↑](#footnote-ref-6)
7. In November 2012, the Australian Parliament passed the Federal Circuit Court of Australia Legislation Amendment Bill 2012, which renamed the Federal Magistrates Court as the Federal Circuit Court of Australia. [↑](#footnote-ref-7)
8. The *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cwlth) extended the jurisdiction of the FMC to some trade mark and design matters. [↑](#footnote-ref-8)
9. *NT Power Generation Pty Ltd v Power and Water Authority* (2004) 219 CLR 90. [↑](#footnote-ref-9)
10. However, this remedy is not available to anyone other than the ACCC for breaches of s. 50. [↑](#footnote-ref-10)
11. *Transfield Pty Ltd. v Arlo International Limited* (1980) 144 CLR 83, per Mason J at pp. 102-03. [↑](#footnote-ref-11)
12. Refusals to license could also include situations where the refusal is a result of the licensee not agreeing to conditions demanded by the licensor. Hanks (2007) discussed High Court authority on situations where the price demanded by the owner of the property amounted to a ‘constructive refusal to deal’. [↑](#footnote-ref-12)
13. The prescribed period requirement in the Patents Act originated from the Paris Convention. However, under the Convention, the requirement only applies to cases involving a failure to work the patent (Article 5(A)(4)). Thus, there is no international treaty obligation on Australia to apply the prescribed period to compulsory licences issued under the competition ground. [↑](#footnote-ref-13)
14. EU legislation provides ‘block exemptions’ from competition law for some types of technology transfer agreements and an ‘exceptional circumstance’ defence for refusals to licence. However, some commentators (for example, Anderman and Shmidt 2007) have argued that, in practice, general doctrines of competition law usually apply to intellectual property. [↑](#footnote-ref-14)
15. (1992) 112 ALR 529 at 534. [↑](#footnote-ref-15)
16. These include the requirement to prepare a National Interest Analysis that includes a regulatory impact statement (where applicable) and to table it in the Parliament prior to implementing the treaty. In addition, the Joint Standing Committee on Treaties is required to review and report on tabled treaties (DFAT nd). [↑](#footnote-ref-16)