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Compulsory Licensing of Patents Enquiry
Productivity Commission
Locked Bag 2, Collins St East
MELBOURNE VIC 8003

Submission – Compulsory Licensing of Patents

This submission is made in response to the Productivity Commission's ("**Commission**") request for submissions on the topics identified in the Issues Paper on the "Compulsory Licensing of Patents" ("**Issues Paper**").

The insights expressed in this submission are based on my experience in the legal sector over many years acting as an adviser for both major industry and commercial participants as well as leading research institutions in Australia in commercialisation and licensing of patents and related disputes, the establishment of joint ventures, CRCs and other structures for commercialisation purposes, R&D collaborations and other general patent matters.

1 Observations in an Australian context

1.1 Why are compulsory licensing provisions rarely invoked?

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.

While I can conceive of circumstances where a patent holder may unreasonably deny access to its technology for anti-competitive reasons, this is not an issue that I have been asked to address by my clients. My clients are highly active participants in Australian R&D from the exploratory stages of R&D through to the final production and marketing of new products (where I act for both the licensors and licensees of the relevant technology), including in the renewable energy and agribusiness sectors as well as almost all other sectors of the Australian economy. If the withholding of rights by patent holders was a pressing issue in these sectors, I would expect to have had the issue raised with me, whether in relation to the compulsory licensing regime or other action to remedy the problem. As such, I see the issue of patent holders refusing to license their inventions as an uncommon and exceptional issue in the Australian context.

The more familiar patent licensing issues my clients require assistance with tend to involve contentious negotiations of licence terms or disputes that arise after a licence has been granted. For example, I regularly advise clients in relation to alleged breaches of existing patent licences or on failure by licensees to adequately bring technology to market.

For the purposes of providing more context in relation to typical IP licensing issues, I have attached a recent presentation I prepared at Annexure A for your reference.

In my experience, patent holders will generally license their inventions to third parties that offer sufficient commercial incentive to do so. The potential to generate revenue or maximise adoptions tend to drive the Australian patent licensing system and ensures that licences are made available to market. It is also common for patent holders to offer licences to commercial partners that can offer skills or resources that the patent holder requires for effective commercialisation (such as marketing skills, supply contacts or an undertaking to bear a greater proportion of the commercialisation risk). Particularly in the research sector and relevantly, in the renewable energy technology sector, we often see the inclusion of clauses in early stage R&D contracts which require the owners of technology to make any inventions which arise from the research widely available to the Australian public, including patents.

1.2 Efficiency of and alternative dispute resolution mechanisms

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.

Moving the powers to determine compulsory licensing applications from the Federal Court to IP Australia, to be heard in a similar manner to a trade marks hearing, is one reform to the compulsory licensing regime that I can see practical benefit in. This would significantly decrease the financial cost and time involved for a genuine compulsory patent licensing action. However, by making it easier to apply for a compulsory licence order, the risks described below in relation to vexatious claims increase. As such, there would need to be appropriate checks and balances in place to ensure that the lowered costs of making an application do not enable unscrupulous licensees to abuse the process. Further, the timetable for such a process would need to be tightly managed to avoid undue interference with a patent holder's ability to commercialise its invention. Appeals would proceed to the Federal Court on a de novo basis like trademark decisions.

2 Specific concerns

2.1 Risk of interference with commercialisation processes

My primary concern with increasing the availability of compulsory licences is interference with the commercialisation process, either through increasing the uncertainty of investment in the technology or hindering a patent holder's ability to pursue an effective commercialisation strategy.

In my experience, patent holders do not ordinarily reject an opportunity to earn revenue through licensing of their invention to a requesting third party unless there is a good business case reason for doing so. Typically, a patent holder will seek out a prospective licensee who is willing to take an exclusive licence or other exclusive rights in relation to a patent (such as exclusive distribution rights over any products created using the patent) in exchange for greater revenue return or greater investment in the commercialisation process. Investors may see a patent holder's inability to grant exclusive rights as a "deal breaker" or may otherwise be reluctant to make a significant investment in technology which they are not guaranteed exclusive rights to. As such, the grant of a compulsory licence has the potential to significantly undermine the ability of the patent holder to commercialise its invention. Further, there is a risk that the incentive to generate new inventions in the Australian market will decrease if returns on investment decrease as a result of changes to the compulsory licensing regime. I would ask that the Commission consider the impact of changes to the compulsory licensing regime on the ability of a patent holder to effectively commercialise its invention or generate returns.

I recognise that some patent holders may withhold the grant of patent rights for anti-competitive reasons. However, as I have not personally encountered this issue in practice, I am unable to comment on it. In any event, in my view a far greater risk than anti-competitive conduct in the Australian context is that forcing patent holders to grant licences could have the impact of undermining our research sector by discouraging investment due to uncertainty for investors over the rights they would be able to secure in the future.

Certainty of investment in new Australian technologies will have a critical impact on Australia's position as a world-leader in innovation and on the Australian economy.

A further consideration for a patent holder is the lack of standing rights of non-exclusive licensees. Under Australian law, only exclusive licencees of patents have standing to sue and claim damages for patent infringement by a third party. A patent holder that doesn't have the resources or is averse to engaging in litigation would understandably seek to grant exclusive rights to a licensee to ensure that the licensee has standing to pursue such actions where the patent holder is unable or unwilling to do so. If a compulsory licence is granted in addition to another licence, neither licensee could ever enforce the patent. In my view, the law in this area needs reform. A licensee that has a non-exclusive licence which is, for example, exclusive in a particular field, should be able to engage in litigation within their field, subject to this right being limited by the licence agreement with the patent holder. Without this reform, it would be an unfortunate result of more liberal compulsory licences to reduce the ability for a prime licensee to enforce the patent.

2.2 Vexatious claims risk

I acknowledge the point that there is likely to be some increased demand for compulsory licensing of patents if the compulsory licensing provisions are clarified so that they are able to be more efficiently or easily exercised. However, given my general observation that patent holders in Australia tend to be sufficiently sophisticated and motivated to make their inventions available on reasonable commercial terms, I query whether the increased number of applications for compulsory licenses would largely be made by unscrupulous potential licensees. Based on my experience, there are limited circumstances where the compulsory licensing regime would need to be invoked by an Australian licensee. However, I can imagine a number of circumstances where 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.

Appropriate protections would need to be put in place alongside any changes made to the compulsory licensing regime to stop such abuses of the process.

This submission is made by me personally, and not by King & Wood Mallesons nor on behalf of any clients. I would like to thank Roxanne Quinlan for her substantial support in preparing this submission.

Yours sincerely

Scott Bouvier
Partner

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Annexure A – IP Licensing Presentation