FB RICE

The IP Navigators

28 September 2012

Productivity Commission
Compulsory Licensing of Patents
LB2 Collins Street East
Melbourne VIC 8003

Compulsory Licensing of Patents
Our Ref: 512491

Dear Sirs

We provide the following comments in response to issues raised in the Productivity Commission's inquiry into compulsory licensing of patents.

Are the current provisions failing?

The emergence of compulsory licences is linked to historical obligations in patent laws to "work" (e.g. manufacture and market) locally a patented invention. These historical obligations arose at a time when there were genuine concerns that patent rights would be misused to impede local industrial progress.

These concerns have largely been unfounded, particularly in Australia. In Australia's developed economy, market forces have set competitive prices for access to patent rights. If a true demand exists for a patented product or process, market forces will typically find a way to ensure that the demand is adequately met.

In more recent times, compulsory licences have been applied in other countries for reasons other than inadequate working of the invention. These reasons relate to circumstances of exceptional nature such as emergency, public interest (e.g. public health) or anti-competitive practices. Because of the very nature of these circumstances, the requirement for compulsory licenses under any of these grounds should be rare.

Patents are held primarily to aid commerce. Patentees either actively use them directly to raise revenue; or they license them to a third party to raise revenue. It is generally not in a patentee's interest to unreasonably withhold either way of working a patent.

Further, licenses are best negotiated between patentees and third parties, since it is these parties who have a good knowledge of the patent and the commercial field and the value of the patent to the end commercial product. Relying on courts to assign license terms should not be encouraged since the court will have little knowledge of the commercial field and the true value of the patent. In order to ensure that patent rights are not devalued, it is clearly preferable that license terms are settled according to the market forces through the normal route of license negotiations between the relevant parties.

It has been noted that compulsory licensing provisions have had very limited use in Australia to date: there have only been three applications and none were granted. This does not necessarily reflect failure of the current provisions. In our view, which is based on our extensive experience in dealing with users of the patent system, it is more likely indicative that the provisions are rarely required. The lack of use of the provisions may also indicate that they provide an adequate incentive to encourage patentees to negotiate reasonable licenses.

For reasons discussed above we believe that the limited use of the compulsory licensing provisions in Australia to date is entirely appropriate – increasing their use or making compulsory licenses somehow more readily available is simply not required and in our view should not be encouraged.

Corresponding provisions in other developed countries

Australia's current provisions are consistent with those of other developed countries such as United Kingdom, Canada, Germany and Japan.

In the United Kingdom, for example, compulsory licensing may be ordered three years after the grant if the demand for the patented product in the U.K. "is not being met on reasonable terms," or if the refusal to grant a licence prejudices "the establishment or development of commercial or industrial activities." There is also a provision for "dependent patents": if a patented invention represents "an important technical advance of considerable economic significance," but its use is hindered by a previous patent, the owner of the dependent patent may obtain a compulsory licence, and the original patentee may obtain a cross licence.

In Japan, compulsory licensing may be ordered if the patent is not worked in Japan for three consecutive years. Japanese law also permits compulsory licensing "where working is in the public interest."

In Canada, a compulsory licence may be granted if three years after the grant, "the demand for the patented article in Canada is not being met to an adequate extent and on reasonable terms." Canada previously allowed compulsory licences for both non-use and pharmaceutical patents, but these provisions were abolished in 1993.

Germany allows compulsory licences if the patent is not worked within three years of the grant, or if the patentee refuses to licence and permission to use the patent is "indispensable in the public interest."

In the United States there is no compulsory licensing regime *per se*. There is a scheme by which the Government can authorize a third party to infringe a patent, and the patentee claims compensation from the Court of Federal Claims. This scheme is rarely used. Recent cases have paved the way for

compulsory licensing, however, by finding that in certain circumstances a failure to licence intellectual property rights, may amount to a breach of anti-monopoly provisions.

Despite these provisions in other developed countries, there have been few compulsory licenses granted outside anti-trust uses in the United States.

Again, in our view this is a reflection that the provisions are rarely required and that their general availability is sufficient to encourage patentees to negotiate reasonable licenses.

It is also noted that the current Australian provisions meet the TRIPS requirements.

The potential downside to changing the current provisions

The substantive requirements of the current provisions include public interest as specified in s.133(2)(a) of the Patents Act 1990 or competition grounds as specified in s.133(2)(b) of the Patents Act.

These requirements are couched in vague terms including "tried for a reasonable period, no satisfactory reasons for failing to exploit patent, demand not reasonably met by patentee's failure to supply on reasonable terms, to manufacture to an adequate extent, etc". However, this does not mean that the current provisions are deficient. Instead these terms provide our courts with the flexibility to grant compulsory licenses where they deem it necessary under the relevant conditions at that time.

In the absence of Australian legal precedents (or relevant foreign precedents) to use as a guide, we believe any changes to "tighten up" these terms may endanger the rights of the patentee and encourage misuse of the provisions. Patentees could be forced into meeting compliance requirements which do not align with their business models in order to stop competitors applying for compulsory licenses. In other words, patent rights could be devalued.

Moreover, "tightening up" the language of the statute will remove flexibility our courts may require when considering future applications for compulsory licenses.

Finally, if compulsory licenses are granted too freely in Australia it may destabilise the local investment environment and upset international trade. Hence, any such changes could result in "unforeseen ramifications" and distort the marketplace.

Alternative approaches

Alternative approaches may be better used to remedy any perceived problems with the current provisions. Such approaches can be tailored to specific industries where particular issues arise. Examples of alternative approaches include:

a) Government subsidies for diagnostic tests along the lines of subsidies provided by the Pharmaceutical Benefits Scheme;
b) Improving dispute resolution options;
c) Promoting patent pools and standardisation bodies to allow easier access to essential patents; or

d) Giving further consideration to the Australian Crown use provisions or limited compulsory licensing in times of emergency, such as, medical emergencies.

In summary, we believe that substantial changes to the current provisions are not justified and could in fact destabilise the local innovation and investment environments.

Yours faithfully

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