Another missed opportunity to reform compulsory licensing and Crown use in Australia

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This article considers the current status of the provisions in the Patents Act 1990 (Cth) relating to compulsory licensing and Crown use, and provides an analysis of the report resulting from the Productivity Commission’s 2013 inquiry into the compulsory licensing of patents. The provisions relating to use without authorisation contain a number of deficiencies, some of which have been well documented. While the Productivity Commission was given the opportunity to rectify a number of these issues, its somewhat tentative approach to reform means that the prospect of significant clarification has been passed up. This article urges that the ramifications of implementing the proposed tests be carefully considered. Rather than promoting clarity, certainty and simplicity, the proposed amendments are likely to exacerbate the problems inherent in the current compulsory licensing provisions, and introduce a host of new issues that will require resolution.

**<div>Introduction**

In any patent system, the public interest demands that there must be some trade off between the rights of patentees to maintain their exclusivity and the rights of others to access patented technology. In weighing up where the balance between these potentially conflicting rights should lie, governments have to make difficult decisions as to how the public interest is best served. Is it more desirable to establish a regulatory regime that primarily focuses on providing exclusivity over the essential materials, methods and tools needed for research and product development (for example, through the grant of strong patent rights)? Or should there be greater emphasis on ensuring open access – for example, through permissive research exemptions and other provisions allowing use of patented inventions without the authorisation of the patentee? Such decisions invariably involve complex considerations and, as such, changes that disrupt the existing balance should not be undertaken lightly.[[2]](#footnote-3)

It has long been recognised that the public interest is not best served by an absolute patent monopoly. Indeed, the very first patent legislation in the English legal system, the *Statute of Monopolies 1624*, excluded from the letters patent manners of new manufacture that were “contrary to the law [or] mischievous to the state by raising prices of commodities at home, or hurt of trade, or generally inconvenient”. In the modern era of rapid technological change, how do we find an appropriate middle ground between absolute monopoly and absolute freedom? On the one hand, patents are widely recognised to be critical conduits to innovative product development. Yet, on the other hand, there is mounting concern that broad foundational patents could block innovation. Even if there is no absolute blocking effect, innovation can still be deterred if multiple bargains need to be negotiated because the patent landscape is cluttered.[[3]](#footnote-4)

Aside from a number of express exemptions from infringement in the Australian *Patents Act 1990* (Cth),[[4]](#footnote-5) there are two sets of provisions that allow for use of patented technologies without the authorisation of the patentee: compulsory licensing and Crown use. This article considers the circumstances in which Australian compulsory licensing and Crown use provisions might be relied on to facilitate access to patented technologies. The authors examine the adequacy of both the procedural and the substantive aspects of these provisions, against the backdrop of Australia’s international obligations and proposals for reform of domestic law. These provisions were most recently reviewed by the Productivity Commission,[[5]](#footnote-6) which followed on from a number of other reviews, none of which have had a significant impact on the operation of the relevant provisions. Regrettably, this article concludes that the recommendations resulting from this latest review by the Productivity Commission provide little comfort to the public in ensuring that an appropriate balance is struck in the Australian patent system between access rights and exclusive rights.

**<div>The law relating to compulsory licences and Crown use**

**<subdiv>International and bilateral obligations**

Obligations contained in multilateral intellectual property (IP) treaties do not significantly limit the grounds on which compulsory licensing and Crown use may be permitted under Australian law. For instance, Art 31 of the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS)[[6]](#footnote-7) is silent on the permissible types of “use without authorisation” (embracing both compulsory licensing and Crown use) that can be included in the laws of member states. Article 31 does, however, require member states to impose stringent restrictions on the circumstances under which permission will be granted for such use. The main constraint is contained in Art 31(b), which provides that a proposed user must have made an unsuccessful attempt to obtain authorisation from the right holder on reasonable commercial terms and conditions before use without authorisation will be allowed. The only permissible exceptions to these stringent conditions are where a patent is being used anti-competitively, or in situations of national emergency; other circumstances of extreme urgency; or public non-commercial use. In these cases, it is still a requirement to notify the patentee and pay reasonable remuneration. Other limitations include that the licence:

* is limited in scope and duration to the purpose for which it was authorised, and must cease when the circumstances which led to it cease to exist;
* must be non-exclusive;
* is non-assignable;and
* must be predominantly for the supply of the domestic market.[[7]](#footnote-8)

Article 17.9.7(b)(i) of the Australia-United States Free Trade Agreement (AUSFTA) imposes more significant limitations.[[8]](#footnote-9) This provision restricts the grounds for use without authorisation in Australia and the United States (US) to cases involving anti-competitive conduct, public non-commercial use, national emergency, or other circumstances of extreme urgency. It also specifies the latter three grounds are applicable only to use by the government or third parties authorised by the government.

Domestically, the circumstances in which uses without authorisation are allowed vary from country to country. In most, including Australia, the relevant provisions are rarely used.In the US, the primary ground on which compulsory licences are issued is to remedy anti-competitive conduct, and many such licences have been issued under anti-trust decrees.[[9]](#footnote-10) The source of this authority to grant compulsory licences for anti-competitive conduct in that jurisdiction is not found within patent legislation but antitrust laws, which regulate specific industries.

**<subdiv>Domestic requirements in Australia**

The key provisions relating to compulsory licensing in Australia are ss 133 and 135 of the *Patents Act*, as amended by the *Intellectual Property Laws Amendment Act 2006* (Cth). Prior to the 2006 amendment, the main purpose of compulsory licences in the *Patents Act* was to provide an opportunity for others to use patented inventions when the “reasonable requirements of the public” had not been met by the patentee. In effect, this requirement provides two grounds for obtaining a compulsory licence: for anti-competitive conduct; and for failure to work locally. Section 135(1)(a) of the *Patents Act* states that the reasonable requirements of the public are not met where:

<blockquote>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](http://www.austlii.edu.au/au/legis/cth/consol_act/pa1990109/s178.html#patented) product, or for a product resulting from the [patented](http://www.austlii.edu.au/au/legis/cth/consol_act/pa1990109/s178.html#patented) process is not reasonably met.[[10]](#footnote-11)</blockquote>

The 2006 amendment extended the grounds for compulsory licensing to expressly include anti-competitive conduct. As a consequence, s 133 of the *Patents Act* now provides two main grounds for the issue of a compulsory licence, where:

* reasonable efforts have been made to obtain authorisation from the patentee, the reasonable requirements of the public have not been satisfied and the patentee gives no satisfactory explanation;[[11]](#footnote-12) or
* the patentee has contravened, or is contravening, Pt IV of the *Competition and Consumer Act 2010* (Cth) (CCA) or an applicable law in connection with the patent.[[12]](#footnote-13)

In both cases the licensee must pay reasonable remuneration. Section 133 also allows for compulsory licensing for dependent patents where a new product involves an important technical advance of considerable economic significance on the invention on which it is dependent.[[13]](#footnote-14) In each of these instances, if a compulsory licence is granted, there is a further procedure in s 134 for seeking revocation for failing to exploit the patent. This also requires an applicant to show that that the reasonable requirements of the public have not been met.

Applications for compulsory licences must be made to the Federal Court of Australia.To date, three applications have been made, and all met with very limited success.[[14]](#footnote-15) The only case in which a court actually took the opportunity to consider and apply the compulsory licensing provisions was *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp*,[[15]](#footnote-16) in which Menzies J, sitting as a single judge of the High Court, examined the equivalent provision in the predecessor to the *Patents Act*. He held that the reasonable requirements of the public were being met at the time of judgment even though this might not have been the case when the application was lodged.[[16]](#footnote-17) The applicant for the compulsory licence also failed to satisfy Menzies J that it was itself capable of satisfying the reasonable requirements of the public because it was a small company with limited experience. In consequence, a compulsory licence was denied.[[17]](#footnote-18)

The Crown use provisions are located in ss 163-170 of the *Patents Act.* They provide for exploitation of patents by the Crown or by a person authorised by the Crown. Use by the Crown under s 163 is limited to exploitation “for the services of the Commonwealth or State”, where that exploitation is “necessary for the provision of those services”. There is no requirement for the Crown to apply formally for an order to exploit a patented invention. Section 165A does, however, provide a safeguard in that the patentee or its nominee can make application for a declaration that such exploitation is not, or is no longer, necessary for the proper provision of relevant services, as well as an order for the Crown to cease exploitation. Consequently the government remains accountable as to the appropriate compensation and circumstances of use.[[18]](#footnote-19)

Like compulsory licensing, there has been limited use of these provisions. In *General Steel Industries Inc v Commissioner of Railways* *(NSW)*,[[19]](#footnote-20) the court held that the Crown use provisions could apply to use by a State rail authority of an invention for the construction of rail carriages.In *Stack v Brisbane City Council*,[[20]](#footnote-21) the provisions were held to be applicable to use by a local government authority of a meter relating to measurement of water supply.

**<div>Issues with the Australian compulsory licensing provisions**

**<subdiv>Voluntary licensing and refusals to license**

Within the rightsconferred under s 13(1) of the *Patents Act*, is the option not to exploit it. As such, “refusals to license” should not ordinarily be viewed as illegitimate. Most refusals to license will be justified on efficiency grounds.[[21]](#footnote-22) There are various reasons why a patentee might refuse to license the right to exploit its invention, the most obvious being:

* where the right to exploit is being sought by a competitor;
* where the patentee has the capacity to further develop the invention and wishes to retain market exclusivity;[[22]](#footnote-23) or
* where it has already issued an exclusive licence to another party.

Many patentees will wish to retain exclusivity in the short term, until they decide which of the range of development options they might exercise. In most instances where an invention is valuable for further research (and thus highly sought after by potential licensees), refusals to license are unlikely, because it is more profitable to collect licence fees and facilitate further development of the patented technology than to retain exclusivity. In fact, decisions about whether to license or not are often very complicated.

In the life sciences, survey and interview evidence indicates that there is no “typical” agreement, but many different types of agreements are tailored to meet the requirements of the parties transacting and the technology involved.[[23]](#footnote-24) Thus a patent licence agreement (in this field at least) may contain a myriad of terms, although it is recognised that some standard terms are emerging.[[24]](#footnote-25) While there have been attempts to draft standard licensing agreements in this field,[[25]](#footnote-26) their success has been limited, perhaps because the technology being licensed is diverse and in a constant state of development and modification. Research on patent licensing strategies for genetic technologies by public research organisations in the US shows that a highly nuanced approach is taken to licensing, including use of exclusive licences in some fields and non-exclusive licensing in others.[[26]](#footnote-27)

Refusals to license are of most concern in situations where patents have been sought for the primary purpose of blocking competing or follow-on research.[[27]](#footnote-28) Constructive refusals to license arise when terms offered by the patentee are so onerous that potential licensees have no real option but to refuse. Terms might be considered to be unreasonable if, for example, patentees demand excessively high royalties, rights to future inventions that have the effect of diminishing incentives to innovate,[[28]](#footnote-29) or field of use restrictions. In circumstances such as these, compulsory licensing provides a valuable alternative strategy for licencees seeking access to vital inputs.

It is often argued that the very existence of the compulsory licensing provisions has the effect of bringing parties to the bargaining table and forcing negotiation.[[29]](#footnote-30) However, concrete evidence to support this claim is lacking; it could equally be argued that the compulsory licensing provisions are ineffectual due to their cumbersome nature and obscure content.[[30]](#footnote-31) While the fact that the provisions have been rarely used could indicate that they are not needed, it could just as readily demonstrate their lack of practicality.

This is not a problem that is unique to the Australian system: the rate of usage of the Australian provisions is fairly commensurate with those of overseas jurisdictions.[[31]](#footnote-32) But it does lend force to the argument that the procedures for applying for compulsory licences under Australian legislation may be problematic. It may also suggest that potential users of the scheme remain mystified as to the circumstances in which an application for a compulsory licence might be justified. Problems with the Australian provisions may be both procedural and substantive in nature.

**<subdiv>Procedural problems: Inconvenience of court proceedings**

The fact that there have been so few applications for compulsory licences suggests that there may be some problems associated with the time and cost involved in making applications to the Federal Court. Even if we accept the argument that the existence of a compulsory licensing scheme encourages voluntary licensing negotiations, we should still expect to see more applications. Empirical interview data suggests that, in the life sciences at least, the current scheme is seen as flawed.[[32]](#footnote-33) In particular, the necessity to apply to the Federal Court for a compulsory licence is seen as a deterrent to utilising the provisions, with cost and uncertainty being the major deciding factors. Participants in the Productivity Commission’s inquiry estimated that costs for compulsory licence applications before the Federal Court would vary between $100,000 and $1 million.[[33]](#footnote-34)

Although the Productivity Commission concluded that the Federal Court remains the most appropriate forum for hearing compulsory licensing applications, it is submitted in this article that this question should remain open for further discussion. Arguably, the key to reducing the costs associated with applying for compulsory licences lies in making the application procedure administrative rather than judicial. The IPCRC, in its 2000 report on IP law and competition principles, recommended compulsory licensing orders be obtainable from the Australian Competition Tribunal with a right of appeal to the Full Federal Court.[[34]](#footnote-35) Alternatively, jurisdiction could be vested in IP Australia, an expanded Copyright Tribunal in the form of an IP Tribunal, or another administrative body, with a right of appeal to the Administrative Appeals Tribunal.[[35]](#footnote-36) The Federal Magistrates Court may also be a viable alternative to the Federal Court.

The Productivity Commission considered these various options, and concluded that each of the alternatives to the Federal Court has its own limitations.[[36]](#footnote-37) In particular, the Commission pointed out the difficulties IP Australia would face in hearing applications for compulsory licences, given its lack of experience in commercial dispute resolution and dealing with competition law disputes. It also found that the establishment of a new body (or expansion of the functions of an existing one) would cause a disproportionate outlay given the limited number of cases likely to come before it. The lack of jurisprudence was also considered to be problematic, as a non-judicial body would have little guidance as to when a compulsory licence should be granted, and how to set an appropriate royalty in the event of a successful application. The Productivity Commission doubted whether the Federal Magistrates Court would be a viable alternative on the basis that its establishment as a forum for “speedy resolution of simpler matters” did not render it suitably placed to deal with the complexity of compulsory licensing.

The Productivity Commission was also skeptical that the Copyright Tribunal would provide an alternative preferable to the Federal Court. Evidence pointed to by the Commission suggests that costs and delays incurred by applicants to the Copyright Tribunal are likely to mirror those inherent in Federal Court proceedings.[[37]](#footnote-38) Until there is some change in Copyright Tribunal procedures, vesting jurisdiction in this body would thus seem to be inappropriate. The Productivity Commission also made the argument that patent law might present significantly more demanding issues than copyright.However, rather than lending weight to retention of the Federal Court as the appropriate arbiter on compulsory licensing applications, this may actually support an argument for expanding the role of the Copyright Tribunal or another specialist tribunal. The reasoning for this argument is that a specialist tribunal would be better placed to determine complicated IP matters than the Federal Court, with its broad jurisdiction. The fact that patent licences are more individualised is also not a decisive factor.The Copyright Tribunal has as much expertise as a Federal Court judge on such matters. Indeed the Copyright Tribunal currently comprises three Federal Court judges and an economist.[[38]](#footnote-39)

Given the importance of the competition ground as a basis for applying for a compulsory licence, it is curious that the Competition Tribunal was not considered as a legitimate alternative, particularly as it was recommended by the IPCRC in its report. Arguments that convinced the Productivity Commission not to recommend that the Competition Tribunal should hear compulsory licensing applications warrant some scrutiny. In the first place, it is difficult to make out a case that the Competition Tribunal lacks the necessary expertise. The membership of the Tribunal comprises four judges and seven other members, generally eminent business people and economists. If the Competition Tribunal were to be expanded to consider patent issues, the inclusion of members that have transactional patent experience, such as patent attorneys and patent evaluators, would give it the requisite patent expertise.

In rejecting the possibility of having applications for compulsory licences heard at first instance by the Competition Tribunal, the Productivity Commission stated that the Tribunal’s jurisdiction is limited to “review of administrative decisions and does not cover civil law disputes between private parties”.[[39]](#footnote-40) Whilst the Competition Tribunal’s role is limited in this way at the moment, it does not lack the expertise to hear such issues, and it seems that it would take little effort to give it original jurisdiction for this purpose. Nor is it unusual for tribunals to decide civil matters.[[40]](#footnote-41) Indeed, in general terms, the role of the Competition Tribunal has been described by commentators as “making authorisation and notifications decisions to assess whether conduct which may be anti-competitive should nevertheless be condoned because it creates sufficient ‘public benefit’”.[[41]](#footnote-42) By analogy, the task for the Tribunal in matters relating to compulsory licensing of patents would essentially amount to authorising conduct that constitutes patent infringement but should nevertheless be condoned because it creates sufficient public benefit. As such, it seems that the role of the Competition Tribunal is currently quite well fitted to deciding these issues.

The Productivity Commission raised a further argument as to the financial rationale for redirecting applications for compulsory licences to the Competition Tribunal. In the view of the Commission, it is unclear whether there would be a material reduction in the costs for parties before a tribunal,[[42]](#footnote-43) although it presented no evidence to support this assertion. In one respect, costs to unsuccessful applicants would be significantly reduced. Applicants coming to the Federal Court bear the risk that they will be ordered to pay the other party’s costs in the event of an adverse decision by the Court. However, tribunals do not normally have the power to award such costs; the Competition Tribunal only awards them in limited circumstances.[[43]](#footnote-44) Further, hearing fees for tribunal actions are set by legislation or regulations. Not only are tribunal fees generally lower than Federal Court fees, particularly when there are multiple hearing days, but the power exists to set specific fees for particular types of applications.[[44]](#footnote-45) It goes without saying that an applicant will still have to pay the costs of their own representation, but there may be savings to be made.

Finally on this point, it is difficult to accept the contention that expanding the operation of an administrative body would inevitably involve significant expenditure. If the decision were made to utilise an existing body, there would be some cost, but it is doubtful that it would be prohibitive. Nor would it be difficult to find potential members. Moreover, a vast number of compulsory licensing applications is unlikely, so resources will not be too stretched.

The determination of reasonable remuneration is also a relevant consideration. The Productivity Commission rightfully queried the expertise of tribunals to determine such matters. Experience has shown that the main sticking point in deciding any access dispute is what constitutes reasonable remuneration,[[45]](#footnote-46) particularly where the parties have no history of dealing. However, the Productivity Commission did not consider the key point that courts are no more qualified to determine this question than tribunals. In the case of the Competition Tribunal and Copyright Tribunal, where judges are tribunal members, it is particularly difficult to see how a distinction can be drawn in the expertise of these tribunals and the Federal Court.[[46]](#footnote-47) In fact, complex pricing decisions are probably more suitably made by bodies such as the Competition Tribunal, especially considering they can include members with relevant expertise.[[47]](#footnote-48) Nevertheless, the question of quantum of remuneration to be paid to the patentee remains one of the most complex aspects of compulsory licensing. This led the Productivity Commission to recommend that the inclusion of pricing guidelines in the compulsory licensing provisions would be desirable. [[48]](#footnote-49) While pricing guidelines may be warranted, precise guidance is likely to be unrealistic given the diversity of circumstances that might prompt applications. In reality, any guidelines would, of necessity, be broad in their scope. The tribunal or court could draw on the case law from the United Kingdom[[49]](#footnote-50) and other jurisdictions to assist them in particular cases.

Another aspect of remuneration is that s 133(5) states that a patentee will be paid “such amount as is agreed between the patentee and the applicant” and if no agreement can be reached, an amount determined by the Federal Court.This does not preclude amending s 133(5) to specify that the relevant tribunal make the determination. Admittedly, the *Federal Court Rules* explicitly require there must be “genuine attempts” to settle out of court to encourage settlement in matters before the court.[[50]](#footnote-51) But a tribunal could just as readily make an order compelling negotiations for reasonable remuneration at the conclusion of a compulsory licence hearing.[[51]](#footnote-52) In short, the issue of remuneration should not be used to support an argument that the Federal Court remains the only qualified body to hear compulsory licensing applications. Once this issue is taken out of the equation, there is a less compelling basis on which to dismiss the expertise of administrative bodies in hearing applications.

In conclusion, the Productivity Commission’s key rationales for retaining the jurisdiction of the Federal Court to hear compulsory licensing applications are not persuasive. While it emphasised that costs would not be saved if jurisdiction were vested in a tribunal, it appears that they would not significantly increase. Moreover, the Productivity Commission’s point that tribunals do not have expertise falls away when the members of relevant tribunals are considered. Where specific expertise is lacking, members with requisite experience can be appointed much more readily to tribunals than to the courts. While there is no guarantee that a change in forum would increase the number of applications for compulsory licences, it would provide some reassurance that the provisions provide an accessible means of gaining access to patented inventions in appropriate circumstances.

**<subdiv>Substantive problems: Reasonable requirements of the public**

There are several difficulties with the “reasonable requirements of the public” test. The primary problem is that the test is subject to interpretive difficulties, particularly because some terms within the provision are not defined. There is some case law that may assist in interpretation, but it is dated and not directly on point.[[52]](#footnote-53) A further problem is conflict between the different objectives of the test: while s 135 indicates that it is concerned with the protection of domestic industry,[[53]](#footnote-54) the test also seems to have some focus on the broader public interest. These interests are not necessarily aligned. Local protectionism would also appear to be contrary to Australia’s obligations under TRIPS and the AUSFTA.[[54]](#footnote-55)

For a range of reasons, the Productivity Commission concluded that the reasonable requirements of the public test should be replaced by an alternative public interest test.This test would allow a compulsory licence to be granted where:

* 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;
* the applicant has tried for a reasonable period, but without success, to obtain access from the patentee on reasonable terms and conditions; and
* there is a substantial public interest in providing access to the applicant, having regard to:
  + benefits to the community from meeting the relevant unmet demand;
  + commercial costs and benefits to the patentee and licensee from  granting access to the patented invention;
  + other impacts on community wellbeing, including those resulting from greater competition and from the overall effect on innovation.[[55]](#footnote-56)

Since the Productivity Commission does not have expertise in legislative drafting, it is suggested here that this is not intended to be the precise wording of the envisaged provision. Rather, it lists the considerations that should be evaluated in a grant of a compulsory licence on this ground. As it stands, this set of conditions appears to be cumulative rather than discrete, with benefits to the community, commercial costs and benefits to the patentee, and impacts on community wellbeing being factors to be included in evaluation of “Australian demand” and what amounts to “reasonable terms”. There are benefits in adopting a more explicit public interest test. It better reflects the purpose of the modern patent system of promoting innovation for the public benefit, rather than focusing on local industry. The test would also supplement the current competition ground,[[56]](#footnote-57) as it stipulates the enhancement of competition is one factor to be considered in evaluating the impact of providing access. Hence, while it complements the competition test, it is broader in scope in its contemplation of other public effects.

Unfortunately, though, this test is also likely to present a new set of interpretive issues. Depending on the precise wording of the test, it is conceivable that the interpretation of some of terms proposed by the Productivity Commission might present problems. For example, the Commission specified a threshold requirement of a “substantial” public benefit in order to satisfy the test.[[57]](#footnote-58) “Substantial” is a term that has been subject to ambiguity in a number of different contexts, but notably, in Australia, in the competition law context. The term appears in several different provisions of Pt IV of the CCA, and debate on its precise meaning has failed to provide a comprehensive definition.[[58]](#footnote-59) For example, a substantial degree of market power is an element of s 46 of the CCA. Sections 45 and 50 require demonstration of a substantial lessening of competition, while s 45D, dealing with secondary boycotts, requires that the proscribed conduct have the purpose or effect of causing substantial loss or damage to a competitor. The meaning of “substantial” in these contexts has not been definitively articulated, although there is conflicting judicial comment on the term.[[59]](#footnote-60)

Regarding s 46 of the CCA, the judiciary has applied slightly differing meanings to the term. For example, a “substantial” degree of market power has been variously defined as “considerable or large”,[[60]](#footnote-61) and “real or of substance” as opposed to “trivial or minimal”.[[61]](#footnote-62) These cases have not provided a definitive definition of the term for the purposes of that section. What is clear, however, is that “substantial” in the context of market power is a relative rather than absolute term: as an economic concept it will be determined by a number of factors relevant to the operation of the market concerned.[[62]](#footnote-63) Similarly, its meaning in the context of ss 45(2)(a)(ii) and 45(2)(b)(ii) may be that it is “meaningful or relevant to the competitive process”,[[63]](#footnote-64) but this must be taken to be subject to future interpretation depending on the approach taken by Australian courts.[[64]](#footnote-65)

The term “reasonable” has a variety of interpretations in other areas of law and is also a concern. One of the problems with the existing “reasonable requirements of the public” test is the difficulty of determining how the reasonableness threshold might be satisfied.[[65]](#footnote-66) The Productivity Commission also failed to specify what might constitute “benefits” and “costs” under its proposed amendment, or how these should be balanced. “Other impacts on community wellbeing” is also a vague term. Imbuing a prospective provision with such a high level of opacity is apt to generate uncertainty and confusion. The reasonable requirements of the public provision does not have a helpful history in this regard. Perpetuating the confusion will not assist in providing usable compulsory licensing provisions, and a potentially very broad and ill-defined access regime may undermine incentives to innovate.[[66]](#footnote-67)

Some assistance with the interpretation of a “reasonableness” requirement may be garnered from UK case law considering the requirement for “reasonable terms” in the compulsory licensing provisions in that jurisdiction.[[67]](#footnote-68) Relevant cases were reviewed by Charles Lawson in 2008. One important conclusion that Lawson drew was that the reasonableness of the terms will be evaluated “from the perspective of the patent holder in dealing with … [the] ‘market’”.[[68]](#footnote-69) In *Brownie Wireless Co’s Application*, Luxmoore J commented that “reasonable terms” is “an elastic phrase which can only be construed with certainty with reference to the actual facts of each particular case”.[[69]](#footnote-70) Lawson noted in his review of the *Brownie* case that:

<blockquote>Luxmoore J considered each of the manufacturer’s contentions of unreasonableness: that the royalty was too high; that the licences were not offered for particular patents, only the whole group of patents; … that the export or sale for export of a product made under the licence was prohibited, and potentially included non-patented articles; and that the royalties applied to every appliance sold by the licensee irrespective of whether or not it contained the patented product(s). Luxmoore J considered the evidence showed that the other 1,000-odd general form licensees were prepared to pay the requested royalty and this was sufficient to show that the proffered royalty was reasonable. A similar conclusion also applied to each of the manufacturer’s other contentions.[[70]](#footnote-71)</blockquote>

This brief exposition of the issues involved in interpreting the terms of a new test demonstrates a necessity for precision in its drafting. At the same time, avoiding the use of terms such as “substantial” might help to avert interpretive difficulties. In this context, it is worth drawing attention to the authorisation provisions contained in s 90 of the CCA. Section 88 empowers the Australian Competition and Consumer Commission (ACCC) to authorise certain forms of anti-competitive conduct pursuant to an application and satisfaction of the requisite test. Essentially, the test contained within relevant subsections of s 90 is whether the conduct has public benefits that outweigh the detriments from the resulting lessening of competition.[[71]](#footnote-72) In other words, the test is a public benefit one, but there is no requirement that the public benefit be substantial. Broadly speaking, “public benefit” means any benefit to the community,[[72]](#footnote-73) and public benefits must generally be computed on the basis of factual material.[[73]](#footnote-74) A body of authority now demonstrates how public benefits and detriments have been assessed.[[74]](#footnote-75) While the compulsory licensing provisions necessarily require consideration of different matters, efficiency will play a part in both questions of compulsory licensing and the authorisation of anti-competitive conduct. However, the implications of a compulsory licensing order for an individual patentee must necessarily be taken into account.[[75]](#footnote-76) But it does raise an interesting question as to whether some of the issues raised in this section could be circumvented by more careful phrasing of the test to be applied.

Finally, whether the reasonable requirements of the public test remains or a new substantial public interest test is introduced, it is difficult to see how either complies with the AUSFTA.[[76]](#footnote-77) A literal reading of Art 17.9.7(b)(i) of the AUSTFA suggests that grounds for compulsory licensing are limited to cases involving anti-competitive conduct, national emergency, other circumstances of extreme urgency, and public non-commercial use. It has been argued elsewhere that the “Most Favoured Nation” provision in Art 4 of TRIPS precludes any argument that although the “reasonable requirements of the public” ground is unavailable against US patentees, it remains available against patentees from other jurisdictions.[[77]](#footnote-78) While the Australian government has stated that the current compulsory licensing provisions are AUSFTA compliant,[[78]](#footnote-79) there remains some doubt as to whether this is actually the case. The Productivity Commission implicitly recognised as much, noting that this matter could only be definitively determined by the judiciary,[[79]](#footnote-80) which in turn reduces the effectiveness of the compulsory licensing provisions.

**<subdiv>Substantive problems: Anti-competitive conduct**

As noted earlier in this article, the 2006 amendment to s 133 added anti-competitive conduct as a ground for application for a compulsory licence. There was strong support for this amendment, and the inclusion of a competition-based test in the compulsory licensing provisions was particularly encouraging.[[80]](#footnote-81) It had the effect of bringing Australian law in line with the AUSTFA, but also brought about a number of problems, some of which were recognised by the Productivity Commission. One of these (the status of the reasonable requirements of the public ground) has been discussed above.

Another problem, which has been well documented, is the overlap between the compulsory licensing provisions in the *Patents Act* and the possibility of obtaining a compulsory licensing order via the general remedial provisions in the CCA.[[81]](#footnote-82) In order to remedy this problem, the Productivity Commission recommended the removal of the competition ground for obtaining a compulsory licence from the *Patents Act* (that is, s 133(2)(b)), so that the sole avenue for pursuing this ground would be the CCA. Part of this recommendation was the specific inclusion of the compulsory licence provisions currently found in s 133 of the *Patents Act* under the relevant remedy provision of the CCA.[[82]](#footnote-83)

On the face of it, it makes good sense to locate compulsory licences based on anti-competitive conduct in the statute dealing with competition law. It also ensures that the safeguards available under s 133 of the *Patents Act* become available under the CCA. However, one difficulty that may arise if the competition ground is absent from the *Patents Act* is that recourse to the CCA may not be an intuitively obvious course of action. By the time a compulsory licence application is contemplated, awareness of the relevant provisions would, of course, be a given. But the efficacy of the competition ground as a prompt for voluntary negotiations might be reduced if it does not appear in the *Patents Act*. In other words, if this recommendation were implemented it would not assist in raising awareness of the provisions, something with which the Productivity Commission was concerned.[[83]](#footnote-84)

The other implication of taking this step is that it may actually lessen the argument for retaining the “reasonable requirements of the public” ground in the *Patents Act*. The basis for the government’s argument that the reasonable requirements of the public ground is compliant with the AUSFTA, is that it captures anti-competitive conduct that falls outside the specific competition ground. The initial basis for this argument was doubtful, and any move to make the CCA the sole avenue for pursuing a compulsory licence on a competition-based ground reduces the strength of this argument even further. It would be very difficult to sustain an argument that the competition ground (under the CCA) includes a public interest ground under the *Patents Act.*

Regardless of where the competition ground is situated, its operation is likely to be limited. Even before considering eligibility to apply for a compulsory licence under this ground, the applicant would have to establish a contravention of the CCA. The provisions of the CCA are notoriously difficult to make out in any circumstance, more so where IP is concerned. Hence, the competition ground for compulsory licensing is unlikely to be useful in most circumstances where access is sought to a patent or group of patents. Section 46 of the CCA, which prohibits the misuse of market power, is the provision most likely to be invoked where a compulsory licence is sought, and establishing the elements of this section is onerous.[[84]](#footnote-85) As such, while s 46 remains in its current form, compulsory licences are extremely unlikely to be granted under the anti-competitive conduct ground. The government recently announced a review of Australia’s competition laws and policy. Consideration of the operation and efficiency of the Pt IV provisions is within the scope of the Panel’s Terms of Reference in the context of the effectiveness of competitive processes and competition policy generally.[[85]](#footnote-86) It is conceivable that this review may result in changes to the Pt IV provisions that impact on the likelihood of successfully making out a compulsory licensing application.

Other provisions of the CCA that may be contravened by conduct involving the use of a patent include s 45 (prohibiting contracts, arrangements and understandings that substantially lessen competition) and s 47 (prohibiting exclusive dealing). These provisions might be contravened through the operation of particular terms and conditions contained in a patent licence agreement.[[86]](#footnote-87) The terms that may potentially breach Pt IV provisions are many and varied. Despite this, and although these terms may disadvantage licensees, in most circumstances this will not render them anti-competitive.[[87]](#footnote-88) This is because licensing is generally pro-competitive in that it encourages the wide dissemination of technologies protected by IP rights.[[88]](#footnote-89)

Also of note is s 51(3) of the CCA. This provision exempts some terms and conditions in IP licences from the operation of certain Pt IV provisions.[[89]](#footnote-90) Briefly, terms and conditions will be exempted from contravening these provisions where they “relate to” the subject matter of the IP licence.[[90]](#footnote-91) This provision has been the subject of some contention, and although discussed by the Productivity Commission,[[91]](#footnote-92) detailed examination and recommendation in relation to it was outside its terms of reference. To summarise the situation in relation to s 51(3), various law reform committees have examined its operation and concluded the provision is problematic.[[92]](#footnote-93) The main problems are the question of whether IP should be treated differently to other forms of property (and thus attract an exemption), and ambiguity surrounding the meaning of the phrase “relates to”. Issue has also been taken with the fact the provision does not apply to all of the Pt IV provisions.[[93]](#footnote-94) The consensus among these law reform bodies has been that the provision is problematic and should be replaced,or subject to significant amendment.[[94]](#footnote-95) There has been no resolution of this matter in either respect: the Australian government partly accepted the recommendations of the IPCRC, but failed to implement them.[[95]](#footnote-96) The government backtracked after considering the ALRC’s recommendations on s 51(3), stating that if the provision was amended, the government would request that the ACCC provide guidelines to clarify the operation of the amended provision.[[96]](#footnote-97) The Productivity Commission considered that this special treatment of patented exemptions was unwarranted, but that specific recommendations (particularly in relation to other forms of IP) were beyond the inquiry’s terms of reference.[[97]](#footnote-98) Thus, the provision remains in the CCA, unreformed. However, all hope is not lost: the draft report on the review of competition policy released on 22 September 2014 has, once again, recommended the repeal of s 51(3).[[98]](#footnote-99)

Interestingly, the Productivity Commission did not consider s 144 of the *Patents Act*, which prohibits tie-ins of patented goods in patent licences, and has significant overlap with the CCA in this regard.[[99]](#footnote-100) Again, detailed evaluation of this and accompanying provisions was outside the scope of the Commission’s inquiry, but the Commission’s findings as to the competition grounds in s 133 leads one to query whether s 144 should be subject to similar scrutiny. There is no doubt that s 144 is a historical anomaly which now has a questionable place in the *Patents Act.* These factors mean there exists a real concern as to whether these issues of exclusivity and exclusionary conduct belong in the *Patents Act* or should also be dealt with in their entirety in the CCA.

To date, very limited guidance exists in Australia on what is likely to constitute anti-competitive conduct in relation to the use of IP. A background paper released by the Trade Practices Commission in 1991 provides some guidance as to when certain terms and conditions in licensing agreements might be exempted from the *Trade Practices Act 1974* (Cth) (later to become the CCA) and when they might breach Pt IV provisions.[[100]](#footnote-101) It also provides some very limited guidance as to conduct involving IP that might constitute a misuse of market power.[[101]](#footnote-102) Unfortunately, the assistance given by the background paper is very limited, and to some extent redundant, given amendments to the CCA over the past decade. The lack of guidance currently provided to IP holders may be detrimental to licensing transactions generally and to potential compulsory licensing applicants in particular. There are precedents in other jurisdictions, such as those provided by antitrust authorities in the US[[102]](#footnote-103) and the European Union.[[103]](#footnote-104) These jurisdictions take quite different approaches to governing the interface between IP and competition law, but the US approach in particular has been extensively discussed in regulatory and academic literature, and would be a useful starting point.[[104]](#footnote-105) Determining which approach to take in drafting guidelines involves complex considerations on how best to balance the competing interests of parties to IP licences.[[105]](#footnote-106) It also depends to some degree on the views of the ACCC in relation to IP licensing, and in taking an approach that best reflects ACCC policy.

While transparency is a desirable aim, it is difficult to be prescriptive in laying down the criteria that the courts would use in determining compulsory licensing terms. Indeed, to do so would be virtually impossible, given the diversity of patents and licences being negotiated. For example, what constitutes a reasonable attempt to negotiate access in one case may not be reasonable in another. Factors such as the nature and value of the invention, the relationship between the parties, and the level of licensing activity in the particular market will all be relevant.

There may be some scope within this context to include a non-exhaustive list of the factors that may guide the Federal Court (or, as argued above, another administrative body) in determining whether a compulsory licence should be granted. For example, the manner in which the nature and value of the invention will impact on the court’s reasoning could be fleshed out. Matters such as the inventiveness of the invention, the importance of the invention to future research and the purpose for which the licence is sought might be considered. All of these issues involve a great degree of subjectivity, however, and prescribing relevant factors in anything but the broadest terms is not something that should be advocated.

**<div>Problems with Crown use provisions**

Many jurisdictions do not distinguish between private companies, individuals, and public authorities with regard to compulsory licensing. In Australia, however, the distinction is quite overt, both formally and procedurally. Unlike the situation with regard to compulsory licensing, Crown use does not require application to the court. Rather, under s 165A of the *Patents Act*, it is for the patentee to apply to the court for a declaration that exploitation by the Crown should cease. In this respect, Crown use is a simpler avenue for securing access than that offered by compulsory licensing,[[106]](#footnote-107) although the scope of circumstances in which it is applicable appear to be much narrower. This has led to ambiguity in determining when the Crown use provisions may be used in preference to the compulsory licensing provisions, particularly when the “use” in question relates to access to healthcare services; for example, diagnostic testing undertaken at public hospitals.

The Crown use provisions were scrutinised in some detail in an inquiry undertaken by the Advisory Council on Intellectual Property (ACIP), which released a report in 2005.[[107]](#footnote-108) The ACIP recommended a number of procedural changes, particularly in relation to the compensatory aspects of the provisions.[[108]](#footnote-109) The government’s response to the report was that legislative amendment to the provisions was not warranted.[[109]](#footnote-110) The provisions were also considered by the ALRC during its inquiry into gene patenting and human health, and were again comprehensively examined by the Productivity Commission. There was general consensus in the reports of both the ALRC and the Productivity Commission that the Crown use provisions would apply when access to a patented invention is sought to facilitate the provision of public healthcare.[[110]](#footnote-111) The ALRC specifically referred to the provision of genetic testing to members of the public by a public laboratory as one example of Crown use.

The requirements for satisfaction of the Crown use provisions would appear to be met when an authority pursues governmental functions, is not engaged in solely commercial activities, and exercises a significant degree of control independent of the executive.[[111]](#footnote-112) Case law indicates that an entity will satisfy the definition of an authority if its actions are “impressed with the stamp of government”,[[112]](#footnote-113) or imbued with some power to direct or control others.[[113]](#footnote-114) Hence, there is a strong argument that a majority of public health services constitute authorities that would be in a position to invoke the Crown use provisions. One clear example would be the provision of genetic diagnostic testing in hospital laboratories. There has been further suggestion that the supply of a patented drug to patients in a public hospital would satisfy the Crown use threshold under the Australian legislation because the provision of a service to the public would constitute an act done in the performance of a duty imposed by government.[[114]](#footnote-115) Despite these arguments that existing Crown use provisions could be interpreted in such a way as to apply to the provision of public healthcare, the ALRC recommended that s 163(1) should be amended to clarify this point.[[115]](#footnote-116)

The government released a response to the ALRC Report and later reports by ACIP on patentable subject matter and the Australian Senate on gene patents in 2011.The government determined that a health-specific policy in relation to the circumstances in which the Crown use provisions would apply was unnecessary.[[116]](#footnote-117) Despite this, the government introduced an amendment to the *Patents Act* in 2013 which would have implemented the ALRC recommendation, together with an amendment to the compulsory licensing provisions to allow applications to be made for compulsory licences to manufacture drugs for export to countries in national emergencies or other circumstances of extreme urgency.[[117]](#footnote-118) Although the Bill was passed in the lower House, it did not pass the Senate prior to the proroguing of Parliament for the 2013 election. A new 2014 Bill introducing the compulsory licensing amendments is currently before the Australian Parliament, but the aspect of the earlier Bill relating to Crown use has been removed, pending further consideration.While this outcome is disappointing, it remains the case that the Crown use provisions currently in force could be interpreted in such a way as to apply to provision of public healthcare, if the need arises. However, this is only likely to occur if patentees unreasonably refuse to allow access to their technology, or only allow access on unreasonable terms.

The Productivity Commission considered at some length the question of whether provision of healthcare services would fall within the ambit of Crown use. Though the Commission did not go so far as recommending that provision of healthcare should be specifically mentioned as a ground for Crown use, the recommended amendment has the potential to significantly broaden the scope of the existing provisions. It was recognised by the Commission that confusion about the sources of services and funding, in healthcare systems in particular, could result in an under-utilisation of the Crown use scheme. The Australian health system involves tiers of responsibility in each of these aspects. Due to complex funding and service provision arrangements, it is not always clear who has responsibility for a particular service (and would be correspondingly responsible for compensating a patent holder).[[118]](#footnote-119) To remedy this, the Productivity Commission recommended that s 163 be amended to provide that Crown use may be invoked “for the provision of a service that the Australian, State and/or Territory Governments have the primary responsibility for providing *or* funding” (emphasis added).[[119]](#footnote-120) This recommendation has the capacity to incorporate a far greater range of service providers as possible users of the Crown use provisions, as the funding reach of both the Commonwealth and State governments in the healthcare area is broad. It clarifies that private providers of health services would be entitled to operate under the Crown use provisions should the need arise, an outcome the authors view positively.

A more contentious issue is whether access would be allowed under the Crown use provisions for research purposes. The ALRC considered that it might apply in the context of health research,[[120]](#footnote-121) but offered little elaboration. The Productivity Commission did not examine the issue, and the government response did not directly address this point. The rationale for extending Crown use in this manner warrants further scrutiny. As a starting point, it may be difficult to make a case that the use of patented inventions for research is providing a service in furtherance of a government function within the meaning of s 163(1). On this basis, if there is sound justification for relying on Crown use to facilitate access to patented technologies for research purposes, the safest option would be to amend s 163(1) to clarify this point.

Arguably, access to patented technology for the purpose of research into the development of a drug could fit this requirement. However, in the usual course of drug development, it would be difficult to argue that such research has no envisaged commercial imperative. This commercial imperative would take such research outside of the services of the Commonwealth or State. To be consistent with Art 31(b) of TRIPS and Art 17.9.7 of the AUSTFA, there would need to be some connotation of urgency or emergency before the Crown use provisions could be relied on in this way. As noted earlier, this TRIPS provision requires that any use without authorisation which does not involve prior negotiation with the patentee must be limited to anti-competitive conduct or circumstances of “national emergency or other circumstances of extreme urgency or in cases of public non-commercial use”. More problematically, the AUSTFA provision limits use without authorisation to these grounds. The government is relying on the national emergency/extreme urgency ground for the introduction of its Bill to amend the *Patents Act* to allow forcompulsory licences to manufacture drugs for export.[[121]](#footnote-122) It seems logical that the same rationale could be used to justify Crown use when national emergencies and other circumstances of extreme urgency arise within Australia to legitimise drug manufacture as well as drug-related research and development. However, these circumstances are only likely to arise extremely rarely.

What is less clear is whether the public non-commercial use arm of the TRIPS/AUSFTA provisions could be utilised to justify a broader reliance on Crown use for research purposes. Might this legitimate all research undertaken at universities and public research institutes, for example? When does research that has commercial development as its ultimate end point break the nexus with public non-commercial use? This question has not yet been convincingly answered in any forum, although the ALRC was clearly willing to consider this aspect of Crown use as a means of freeing research from the fetters of patent infringement. Although s 163 does not provide any relevant limitation on the operation of Crown use in Australia, it is not clear whether it can be extended this far. The government has not yet been put into a situation where it needs to consider the Crown use option in the research context because Australian researchers have not been exposed to the types of patent enforcement notices that, it is feared, may become routine in other jurisdictions.[[122]](#footnote-123)

As things currently stand, government decisions about the circumstances in which Crown use should be made available in the research context are likely to be made on a case-by-case basis, if at all. Unless Crown use is exercised with caution, and in strictly limited circumstances, it could have the effect of undermining confidence in these provisions and endanger the principle of competitive neutrality.[[123]](#footnote-124) Problems will likely arise if the government permits some organisations with low levels of government engagement to obtain access to protected inventions on favourable terms.[[124]](#footnote-125)

It remains to be seen whether public non-commercial use will ever be relied on by the government as a vehicle for enlivening the existing grounds for Crown use to facilitate the use of patents for research, as suggested by the ALRC. The importance of this question depends to some extent upon the scope of the experimental use exemption, enacted via the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth). It exempts from infringement acts that are “done for experimental purposes relating to the subject matter of the invention”.[[125]](#footnote-126) “Experimental purposes”, amongst other things, is defined to include determining the properties of the invention, determining the scope of patent claims, and improving the invention.[[126]](#footnote-127) As yet, this provision is, for practical purposes, untested. In considering the experimental use exemption, the Productivity Commission suggested that at the very least, it would allow free access to patented inventions for research purposes.[[127]](#footnote-128) Nevertheless, what is quite clear is that the exemption does not apply to the use of patented research tools, since a research tool is not something that is experimented on as such. Rather, it is used to enable the execution of other experiments. Much of the concern about the impact of patents on research has been triggered by examples of enforcement of research tool patents.[[128]](#footnote-129) Thus, it is by no means inconceivable that the experimental use exemption will fall short of providing researchers with appropriate levels of protection from patent enforcement actions. This is an important matter that remains to be addressed, and clearly warrants further scrutiny.

**<div>Conclusion**

Although there have been numerous reviews of the provisions relating to compulsory licensing and Crown use in the *Patents Act*, we have seen only relatively conservative changes to date, with any amendments made solely to bring the provisions in line with the AUSFTA. None of the recommendations of the IPCRC or the ALRC have been implemented. The latest review undertaken by the Productivity Commission could have gone further than it did. This review represented an important opportunity to remedy the deficiencies of the compulsory licensing and Crown use provisions, and clarify or ameliorate the ambiguities within them. This opportunity was not used to its full advantage.

From the substantive perspective, the operation (and lawfulness) of the “reasonable requirements of the public” provision remains unclear; and there are various implications that would result from moving the competition-based test into the CCA, which could have been explored more completely. Procedurally, while jurisdiction remains with the Federal Court, applications for compulsory licensing are likely to be out of contemplation for most users of patented technology.

The Productivity Commission’s consideration of the Crown use provisions is similarly disappointing. Much of the patent law reform activity over the past decade has its origin in concerns that patents claiming rights to gene sequences and related subject matter could impede research and access to healthcare. The Crown use provisions provide a genuine avenue to address these concerns, should they arise in the future. Arguably, the government could already intervene through existing Crown use provisions should the provision of genetic diagnostic testing in public laboratories be impeded by enforcement of relevant patents. Its recommendation in relation to the expansion of the Crown use provisions to incorporate services that governments have the primary responsibility for providing or funding would ensure that similar services provided in private laboratories are encapsulated.

The situation is far less clear with regard to research. The new experimental use exemption is a welcome addition to user rights under the *Patents Act.* But it is unlikely that this provision will provide assistance to researchers who are impeded from accessing essential research tools. The Productivity Commission had the opportunity to provide clear guidance on the scope of the “public non-commercial use” ground for use without authorisation under the AUSFTA and the extent to which it could be relied on in the context of Crown use*.* More detailed analysis of these provisions, together with a recommendation that guidelines should be drafted to assist in their future application would have provided real benefit to the research community.

In short, the provisions relating to compulsory licensing and Crown use have been imperfect for some time, and the Productivity Commission took a fairly moderate approach to its reform agenda. These provisions purportedly benefit not just industry participants, but also the public. It is highly desirable that these provisions be more functional to address any contingencies that some argue will inevitably arise at some point in the future. However, the likelihood that changes will be made which actually improve the workability of these provisions is probably even more remote now than it was before the commencement of the Productivity Commission inquiry.

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2. Barton JH, “Patents and Antitrust: A Rethinking in Light of Patent Breadth and Sequential Innovation” (1997) 65(2) Antitrust LJ 449. [↑](#footnote-ref-3)
3. Van Overwalle G, “Of Thickets, Blocks and Gaps: Designing Tools to Resolve Obstacles in the Gene Patents Landscape” in Van Overwalle G (ed), *Gene Patents and Collaborative Licensing Models: Patent Pools, Clearinghouses, Open Source Models and Liability Regimes* (Cambridge University Press, 2009) p 383. [↑](#footnote-ref-4)
4. See *Patents Act 1990* (Cth), ss 117-119C. These provisions include the new exemptions for experimental purposes (s 119C) and for non-pharmaceutical regulatory approval (s 119B), introduced by the *Intellectual Property Laws (Raising the Bar) Act 2012* (Cth). [↑](#footnote-ref-5)
5. Productivity Commission, *Compulsory Licensing of Patents*, Report No 61 (2013) p v. [↑](#footnote-ref-6)
6. *Marrakesh Agreement Establishing the World Trade Organization*, opened for signature 15 April 1994, 1867 UNTS 3 (entered into force January 1 1995), Annexure IC. [↑](#footnote-ref-7)
7. TRIPS, Art 31(c)-(f); see also Productivity Commission, n 4, pp 284-285. [↑](#footnote-ref-8)
8. *Australia-United States Free Trade Agreement*, signed 18 May 2004, [2005] ATS 1 (entered into force 1 Jan 2005). [↑](#footnote-ref-9)
9. Scherer FM, “Comments” in Anderson RD and Gallini NT (eds), *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* (University of Calgary Press, 1998) p 106. [↑](#footnote-ref-10)
10. *Patents Act 1990* (Cth), s 135(1)(a) goes on to provide that these failures to satisfy the reasonable requirements of the public must be 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.” Section 135(1)(b)-(c) add two further grounds, both of which also relate to anti-competitive conduct and failure to work: “(b) [if] 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.” [↑](#footnote-ref-11)
11. *Patents Act 1990* (Cth), s 133(2)(a). Recommendation 6.2 of the Productivity Commission Report, n 4, proposes to replace s 133(2)(a) with a new public interest test. This recommendation is discussed more fully below. [↑](#footnote-ref-12)
12. *Patents Act 1990* (Cth), s 133(2)(b). Recommendation 6.1 of the Productivity Commission Report, n 4, proposes to remove this section, which would require that applications for compulsory licences to remedy anti-competitive conduct must be made through the CCA. [↑](#footnote-ref-13)
13. For discussion of the issue of dependent patents, see Nielsen J and Nicol D, “Whither Patent Use Without Authorisation in Australia” (2008) 36 FLR 333 at 359. [↑](#footnote-ref-14)
14. See Productivity Commission, n 4, p 58. [↑](#footnote-ref-15)
15. *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572 at 573-574. [↑](#footnote-ref-16)
16. *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572 at 577. [↑](#footnote-ref-17)
17. *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572 at 580-583. [↑](#footnote-ref-18)
18. Productivity Commission, n 4, pp 170-171. [↑](#footnote-ref-19)
19. *General Steel Industries Inc v Commissioner of Railways* *(NSW)* (1964) 112 CLR 125. [↑](#footnote-ref-20)
20. *Stack v Brisbane City Council* (1995) 32 IPR 69; see also Productivity Commission, n 4, pp 165-166, particularly Box 7.1. [↑](#footnote-ref-21)
21. See Nielsen J, “Biomedical Innovation: How Compulsory is Competition?” (2010) 38 ABLR 100 at 118-123. [↑](#footnote-ref-22)
22. In fact, survey data indicates that in Europe, Japan and the US, around half of patents are used solely by their owner: Guiri P et al, “Inventors and Invention Processes in Europe: Results from the PatVal-EU Survey” (2007) 36 *Research Policy* 1107 at 1118-1119; Nagaoka S and Walsh JP, *Commercialisation and other Uses of Patents in Japan and the US: Major Findings from the RIETI-Georgia Tech Inventor Survey*, RIETI Discussion Paper Series 09-E-011 (2009) pp 8-9, www.rieti.go.jp/jp/publications/dp/09e011.pdf. [↑](#footnote-ref-23)
23. Nicol et al, *The Innovation Pool in Biotechnology: The Role of Patents in Facilitating Innovation* (Occasional Paper No 8, Centre for Law and Genetics, 2014) 92 [↑](#footnote-ref-24)
24. Somers JP, “Biotech Patent Licensing: Key Considerations in Deal Negotiations” (2003) 6(3) J Biolaw and Business 9. [↑](#footnote-ref-25)
25. Organisation for Economic Co-operation and Development (OECD), *Genetic Inventions, Intellectual Property Rights and Licensing Practices: Evidence and Policies* (2002), www.oecd.org/science/sci-tech/2491084.pdf. [↑](#footnote-ref-26)
26. Pressman L et al, “The Licensing of DNA Patents by US Academic Institutions: an Empirical Study” (2006) 24 *Nature* 31. [↑](#footnote-ref-27)
27. Nielsen, n 18 at 120. [↑](#footnote-ref-28)
28. See generally Nielsen J, “Reach-Through Rights in Biomedical Patent Licensing: A Comparative Analysis of their Anti-Competitive Reach” (2004) 32(2) FLR 169. [↑](#footnote-ref-29)
29. See, for example, Intellectual Property and Competition Review Committee (IPCRC), *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000) pp 22-23, 162; Productivity Commission, n 4, p 12. [↑](#footnote-ref-30)
30. Nielsen and Nicol, n 12 at 345; Lawson C, “Public Interest Compulsory Licensing under the Patents Act 1990 (Cth): Real Incentive or a Barrier to Working?” (2008) 19 AIPJ 129; Lawson C, “Accessing and Affording Drugs Despite the Patent Barrier: Compulsory Licensing and Like Arrangements?” (2013) 24 AIPJ 94. [↑](#footnote-ref-31)
31. See Productivity Commission, n 4, p 261, “C: Non-Voluntary Access Arrangements in Comparable Markets”. [↑](#footnote-ref-32)
32. Nielsen and Nicol, n 12; Nicol D, Nielsen J, Liddicoat J, Critchley C and Whitton T, *The Innovation Pool in Biotechnology: The Role of Patents in Facilitating Innovation*, Occasional Paper No 8, Centre for Law and Genetics (2014). [↑](#footnote-ref-33)
33. Productivity Commission, n 4, pp 12-13. [↑](#footnote-ref-34)
34. IPCRC, n 25, p 163. This recommendation was premised on its primary recommendation that the grounds for compulsory licence be overhauled, and that the competition ground replace all other grounds for application. [↑](#footnote-ref-35)
35. Productivity Commission, n 4, pp 124-126; Centre for Law and Genetics, Submission to the Productivity Commission Issues Paper: Compulsory Licensing of Patents (2012). [↑](#footnote-ref-36)
36. Productivity Commission, n 4, pp 123-126 (Finding 6.1). [↑](#footnote-ref-37)
37. Productivity Commission, n 4, p 124; Copyright Law Review Committee, *Jurisdiction and Procedures of the Copyright Tribunal* (2000) Ch 5. [↑](#footnote-ref-38)
38. Copyright Tribunal of Australian, *Members*, www.copyrighttribunal.gov.au/members. [↑](#footnote-ref-39)
39. Productivity Commission, n 4, p 125. [↑](#footnote-ref-40)
40. The Hon Justice Garry Downes, “Tribunals in Australia: Their Roles and Responsibilities”, *Reform* (Issue 84, ALRC, Autumn 2004). [↑](#footnote-ref-41)
41. Duns J and Duke A, *Competition Law: Cases & Materials* (3rd ed, LexisNexis, 2011) p 36. [↑](#footnote-ref-42)
42. Productivity Commission, n 4, p 124. [↑](#footnote-ref-43)
43. CCA, ss 44K-44KB. [↑](#footnote-ref-44)
44. See Productivity Commission, n 4, p 118; *Competition and Consumer Regulations 2010* (Cth), Sch 1B. [↑](#footnote-ref-45)
45. See Hoad R, “Compulsory Licensing of Patents: Balancing Innovation and Competition” (2003) 54 *IP Forum* 28 at 32. [↑](#footnote-ref-46)
46. See Corones SG, “Remedies under the Trade Practices Act for Refusal to Supply” (1993) 10 ABR 259 at 271-273; Pengilley W, “Queensland Wire and its Progeny Decisions: How Competent Are the Courts to Determine Supply Prices and Trading Conditions?” (1991) 21 UWALR 225 at 230-231; Wright D, *Remedies Under the Trade Practice Act* (OUP, 2006) pp 258-259. [↑](#footnote-ref-47)
47. Wright, n 42, pp 254-259; see also Nielsen and Nicol, n 12 at 354-356. [↑](#footnote-ref-48)
48. Productivity Commission, n 4, pp 152-154. The Commission also recommended that any pricing principles developed be consistent with those adopted in Pt IIIA of the CCA (dealing with access to essential facilities). [↑](#footnote-ref-49)
49. See review of UK case law in Lawson (2008), n 26 at 135-138. [↑](#footnote-ref-50)
50. *Federal Court Rules 2011* (Cth), rr 5.02, 8.02; see also *Civil Dispute Resolution Act 2011* (Cth), Pt 2. [↑](#footnote-ref-51)
51. See Scherer FM and Watal J, “Post-TRIPS Options for Access to Patented Medicines in Developing Nations” (2002) 5(4) *Journal of International Economic Law* 913 at 923. [↑](#footnote-ref-52)
52. Lawson (2008), n 26 at 130-145. [↑](#footnote-ref-53)
53. IPCRC, n 25, p 162; Productivity Commission, n 4, pp 148-149. [↑](#footnote-ref-54)
54. Nielsen and Nicol, n 12 at 357-359. [↑](#footnote-ref-55)
55. Productivity Commission, n 4, pp 24-25 (Recommendation 6.2). [↑](#footnote-ref-56)
56. See Productivity Commission, n 4, pp 150-151. [↑](#footnote-ref-57)
57. Ostensibly to guard against trivial claims: Productivity Commission, n 4, p 151. [↑](#footnote-ref-58)
58. See, for example, *Rural Press Ltd v ACCC* (2002) 118 FCR 236 at [123]-[125] (Whitlam, Sackville and Giles JJ). [↑](#footnote-ref-59)
59. See Corones SG, *Competition Law in Australia* (5th ed, Lawbook Co, 2010) pp 130-132; Leuner T, “Time and the Dimensions of Substantiality” (2008) 36 ABLR 327. [↑](#footnote-ref-60)
60. *Dowling v Dalgety Australia Ltd* (1992) 34 FCR 109, approved in a number of cases, most recently *Melway Publishing Pty Ltd v Robert Hicks Pty Ltd* (1999) 90 FCR 128. This definition was taken from the Explanatory Memorandum to the *Trade Practices Legislation Amendment Bill 1992* (Cth) at [41]. [↑](#footnote-ref-61)
61. *Mark Lyons Pty Ltd v Bursill Sportsgear Pty Ltd* (1987) 75 ALR 581, followed in a number of cases, most recently *ACCC v Baxter Healthcare Pty Ltd* (2008) 170 FCR 16. [↑](#footnote-ref-62)
62. Note in particular ss 46(1AB), 46(3)-(3A), 46(3C)-(3D), all of which have some bearing in determining whether a company has a substantial degree of power in a market. [↑](#footnote-ref-63)
63. *Rural Press Ltd v ACCC* (2003) 216 CLR 53 at [41] (Gummow, Hayne and Heydon JJ). [↑](#footnote-ref-64)
64. See also McMahon K, “Competition Law Adjudication and the High Court” (2006) 30(3) MULR 782. [↑](#footnote-ref-65)
65. Lawson (2008), n 26 at 135-138. [↑](#footnote-ref-66)
66. Hoad, n 41. [↑](#footnote-ref-67)
67. *Patents Act 1977* (UK), s 48A. [↑](#footnote-ref-68)
68. Lawson (2008), n 26 at 138. [↑](#footnote-ref-69)
69. *Brownie Wireless Co’s Application* (1929) 46 RPC 457 at 473. [↑](#footnote-ref-70)
70. Lawson (2008), n 26 at 136 (citations excluded). [↑](#footnote-ref-71)
71. The test is not defined in the Act. In determining this question the test applied is the future with (the conduct) or without (the conduct) test: see *Re Qantas Airways* [2005] ATPR 42-065 at [357]. [↑](#footnote-ref-72)
72. *Re Queensland Coop Milling Association Ltd* (1976) 25 FLR 169. For examples, see *Re ACI Operations Pty Ltd* [1991] ATPR (Com) 50-108. Benefits may be economic or non-economic: for more detailed discussion, see Corones, n 55, pp 206-213. [↑](#footnote-ref-73)
73. *Re Qantas Airways Ltd* [2004] ATPR 42-027. [↑](#footnote-ref-74)
74. See also ACCC, *Authorisation Guidelines* (2013) pp 56-64. [↑](#footnote-ref-75)
75. In questions of authorisation, a total welfare standard applies (*Re Qantas Airways Ltd* [2004] ATPR 42-027), whereas in questions of compulsory licensing, individual welfare may be paramount. [↑](#footnote-ref-76)
76. See Nielsen and Nicol, n 12 at 357-359; Australian Law Reform Commission (ALRC), *Genes and Ingenuity: Gene Patenting and Human Health*, Report No 99 (2004) p 615. [↑](#footnote-ref-77)
77. See Nielsen and Nicol, n 12 at 358-359. [↑](#footnote-ref-78)
78. Department of Foreign Affairs and Trade Australia, *United States Free Trade Agreement – Guide to the Agreement* (2004) pp 99-100; Senate Economics Legislation Committee, *Provisions of the Intellectual Property Laws Amendment Bill 2006* (2006) p 46. The Senate Economics Legislation Committee was of the view that the anti-competitive ground contained in the AUSTFA contemplated all of the current grounds available under the *Patents Act*, which would include the reasonable requirements of the public ground. [↑](#footnote-ref-79)
79. Productivity Commission, n 4, p 157. [↑](#footnote-ref-80)
80. Nielsen and Nicol, n 12 at 347-352. [↑](#footnote-ref-81)
81. Nielsen and Nicol, n 12 at 348-352; Lawson C, “Compulsory Licensing under the Patents Act 1990 to Remedy Anticompetitive Conduct under the Trade Practices Act 1974” (2008) 36 ABLR 369 at 376. This matter has been put beyond doubt by the Australian government: see Explanatory Memorandum to the *Intellectual Property Laws Amendment Bill 2006* (Cth) p 45. This clarification was inserted belatedly into the Explanatory Memorandum via a Further Explanatory Memorandum, which contained pages intended to replace pages relating to this matter in the original Explanatory Memorandum. This clarification was provided prior to the Bill’s passage. [↑](#footnote-ref-82)
82. Productivity Commission, n 4, pp 23, 138-152 (Recommendation 6.1). The remedy provision is s 87 of the CCA, with s 87(2) listing remedies the court may order. [↑](#footnote-ref-83)
83. Productivity Commission, n 4, Ch 10. [↑](#footnote-ref-84)
84. Nielsen and Nicol, n 12 at 350-352; Nielsen, n 18. [↑](#footnote-ref-85)
85. See Competition Policy Review, *Terms of Reference*, www.competitionpolicyreview.gov.au/terms-of-reference/. An Issues Paper was released on 14 April 2014 and was open for submissions until 10 June 2014. A draft report was released on 22 September 2014: Competition Policy Review, Draft Report (2014). [↑](#footnote-ref-86)
86. The Trade Practices Commission, *Application of the Trade Practices Act to Intellectual Property*, Background Paper (1991) (Trade Practices Background Paper). [↑](#footnote-ref-87)
87. See, in particular, Nielsen, n 24; See also United States Department of Justice and Federal Trade Commission, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007) Ch 4; Corones, n 55 at [12.25]-[12.80]. [↑](#footnote-ref-88)
88. IPCRC, n 25, p 62. [↑](#footnote-ref-89)
89. Namely ss 45(2)(a)(ii) and (2)(b)(ii) (which regulate collusive conduct between competitors), s 47 (which regulates exclusive dealing), and s 50 (which regulates anti-competitive mergers or acquisitions). [↑](#footnote-ref-90)
90. A term will “relate to” the subject matter of an invention where it seeks to gain a “collateral advantage”: *Transfield Pty Ltd v Arlo International Ltd* (1980) 144 CLR 83 (Mason J). [↑](#footnote-ref-91)
91. Productivity Commission, n 4, pp 138-145. [↑](#footnote-ref-92)
92. Notably the National Competition Council (NCC), *Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974: Final Report* (1999); IPCRC, n 25; ALRC, n 72, p 615. [↑](#footnote-ref-93)
93. The provision does not apply to the misuse of market power (ss 46-46A) or resale price maintenance (s 48) provisions. [↑](#footnote-ref-94)
94. See IPCRC, n 25, p 215; see also NCC, n 88, pp 243-244; ALRC, n 72, Recommendation 24-1. [↑](#footnote-ref-95)
95. Australian Government Response to Intellectual Property and Competition Review Recommendations (2000), [www.arts.gov.au/resources-publications/publications/government-response-advisory-council-intellectual-property-recom](http://www.arts.gov.au/resources-publications/publications/government-response-advisory-council-intellectual-property-recom). [↑](#footnote-ref-96)
96. See also Government Response, n 91, p 34. [↑](#footnote-ref-97)
97. Productivity Commission, n 4, Finding 6.3. [↑](#footnote-ref-98)
98. Competition Policy Review Draft Report, n 81, pp 31, 85-86. [↑](#footnote-ref-99)
99. See Lawson C, “Tie-Ins in the Patents Act 1990 (Cth), s 144: Perhaps it’s Time to Modernise?” (2010) 21 AIPJ 202. [↑](#footnote-ref-100)
100. Trade Practices Background Paper, n 82, pp 21-30. [↑](#footnote-ref-101)
101. Trade Practices Background Paper, n 82, pp 15-18. [↑](#footnote-ref-102)
102. United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* (1995). [↑](#footnote-ref-103)
103. *European Commission Regulation (EC) No 772/2004 of 27 April 2004 on the Application of Article 81(3) of the Treaty to Categories of Technology Transfer Agreements* [2004] OJ L 123/11. [↑](#footnote-ref-104)
104. See also Productivity Commission, n 4, p 145. [↑](#footnote-ref-105)
105. See, for example, the discussion in Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) Chs 1-2, 6; IPCRC, n 25, pp 210-214; Sumpter M, “IP and Competition Law: Two Sides of the Same Coin?” (2011) 22 AIPJ 52 at 53-55, Landrigan M, “Competition v Intellectual Property: Uneasy Allies or Natural Adversaries?” (2008) 16 TPLJ 116 at 120-122, 128. [↑](#footnote-ref-106)
106. Note that the Productivity Commission did recommend procedural changes to the Crown use provisions which would require the Crown to (i) negotiate access prior to invoking Crown use; (ii) provide that patentee with a statement of reasons at least 14 days before using the patented invention; (iii) seek the approval of the relevant Minister; and (iv) pay the patentee remuneration: Productivity Commission, n 4, Recommendation 7.2. Although these amendments would not significantly impede the swift invocation of the Crown use provisions, they would raise some issues in that the Productivity Commission suggested that remuneration payable be “determined on the same basis as that for a compulsory licence”. The imprecision of this term leaves doubt as to exactly how remuneration would be calculated, and hints that the involvement of the Federal Court in determining remuneration might become inevitable in Crown use cases. [↑](#footnote-ref-107)
107. ACIP, *Review of the Crown Use Provisions for Patents and Designs* (2005). ACIP’s mandate was, essentially, to consider potential abuses of the provisions given increased activities of a commercial nature being undertaken by governments. [↑](#footnote-ref-108)
108. ACIP, n 103, pp 3-5. The ALRC, n 72, and the Productivity Commission, n 4, made similar recommendations, none of which have resulted in any changes to the Crown use provisions. [↑](#footnote-ref-109)
109. IP Australia subsequently developed a fact sheet to assist in determining when the Crown use provisions would apply: www.ipaustralia.gov.au/understanding-intellectual-property/ownership-of-ip/crown-use/ [↑](#footnote-ref-110)
110. ALRC, n 72, pp 601-602; Productivity Commission, n 4, p 171 (Recommendation 7-1.) [↑](#footnote-ref-111)
111. See, in particular, the excellent discussion in Dembo T, “An Examination of the Crown Use Provisions in the Patents Act” (2007) 18 AIPJ 70 at 76-78, and the cases cited therein. [↑](#footnote-ref-112)
112. *Stack v Brisbane City Council* (1995) 59 FCR 71 at 83. [↑](#footnote-ref-113)
113. *Stack v Brisbane City Council* (1995) 59 FCR 71 at 83-84. [↑](#footnote-ref-114)
114. ALRC, n 72, p 598 citing *Pfizer Corporation v Ministry of Health* [1965] AC 512 at 543-552. [↑](#footnote-ref-115)
115. ALRC, n 72, Recommendation 26-2. [↑](#footnote-ref-116)
116. Australian Government Response to Senate Community Affairs Reference Committee Gene Patent Report (2011) pp 10-11. See also ACIP, *Patentable Subject Matter*, Final Report (2010); Australian Senate Community Affairs Committee, *Report on Gene Patents* (2010). [↑](#footnote-ref-117)
117. *Intellectual Property Laws Amendment Bill 2013* (Cth). [↑](#footnote-ref-118)
118. Productivity Commission, n 4, pp 170-174. [↑](#footnote-ref-119)
119. Productivity Commission, n 4, Recommendation 7.1. [↑](#footnote-ref-120)
120. See ALRC, n 72, Recommendation 26-2. [↑](#footnote-ref-121)
121. *Intellectual Property Laws Amendment Bill 2014* (Cth). [↑](#footnote-ref-122)
122. Nicol D and Nielsen J, “Patents and Medical Biotechnology: An Empirical Analysis of Issues Facing the Australian Industry”, Occasional Paper No 6, Centre for Law and Genetics (2003) p 217. [↑](#footnote-ref-123)
123. See, in particular, Dembo, n 107 especially at 74. [↑](#footnote-ref-124)
124. ACIP, n 103, p 8. [↑](#footnote-ref-125)
125. *Patents Act 1990* (Cth), s 119C(1). [↑](#footnote-ref-126)
126. *Patents Act 1990* (Cth), s 119C(2). [↑](#footnote-ref-127)
127. Productivity Commission, n 4, pp 185-187. [↑](#footnote-ref-128)
128. See, for example, some of the pivotal early work in this area: Eisenberg RS, “Bargaining Over the Transfer of Proprietary Research Tools: Is This Market Failing or Emerging?” in Dreyfuss RC, Zimmerman DL and First H (eds), *Expanding the Boundaries of Intellectual Property: Innovation Policy for the Knowledge Society* (OUP, 2001); National Institutes of Health, *Report of the National Institutes of Health Working Group on Research Tools* (1998). [↑](#footnote-ref-129)