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All Correspondence to:

*Intellectual Property Laws Amendment (Productivity Commission
Response Part 2 and Other Measures) Bill 2019 (“the PC Part 2 Bill”)*

In response to the Senate referral to the Economics Legislation Committee in relation to the PC Part 2 Bill on 1 August 2019 and the invitation for public comment, I make the submissions contained in the **attached** Schedule.

Email:

The submissions relate exclusively to the proposed Crown use provisions for patents and designs. As a broad overview of these submissions:

- Firstly, in relation to the Court’s calculation of terms/remuneration, the proposed amendments represent an improved position from the similar provisions, which were proposed in the *Intellectual Property Laws Amendment Bill 2013 (Cth)*, as they relate to “just and reasonable” remuneration to be paid to the patentee or nominated person. The submitter proposes that a “Note” or “Example” be inserted after the proposed s.165(2) of the *Patents Act* and s.98(2) of the *Designs Act*, specifically stating that the patentee exploiting the invention or taking steps towards the imminent exploitation of the invention, at the time of proposed Crown use, is a matter which the Court must consider relevant.
- Secondly, even though these proposed amendments improve the position from the perspective of greater transparency, the Crown may circumvent the very clear attempt the PC Part 2 Bill makes, to level

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the negotiation and remuneration playing fields, between the rights holders and the Crown. The submitter proposes a deterrent to infringement by the Crown, be inserted into s.122A of the *Patents Act* for the award of additional damages against the Crown in the case of an unsuccessful:

- defence to an infringement action; or
- challenge by the Crown or by its proposed authorised person, in an opposition to the grant of the patent or to the validity of a granted patent.¹

The basis for this recommendation is that there is no compulsion on the Crown to follow the “general rule”. The impact of non-compliance by the Crown to the general rule, is that it is open to an infringement claim. For the reasons set out in this submission, that is not only not a disincentive to the Crown but may actually suit its purpose.

Yours sincerely

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¹ An equivalent provision may be inserted into the *Designs Act* where the Court may award additional damages following design infringement findings.

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SCHEDULE

A. Introduction

1. The proposed amendments in Schedule 2 of the PC Part 2 Bill, relating to the Crown use of patents in Chapter 17 of the *Patents Act* 1990 (Cth), are essentially the same provisions which were proposed in the *Intellectual Property Laws Amendment Bill* 2013 (Cth) (the “IPLA Bill”) Schedule 1 Part 1.
2. Unlike Schedule 3 of the PC Part 2 Bill, the IPLA Bill did not propose any amendments to the Crown use provisions contained in the *Designs Act* 2003 (Cth). The proposed amendments to the *Designs Act* contained in Schedule 3 of the PC part 2 Bill, largely mirror the proposed amendments for the Crown use of patents, with some differences peculiar to each regime, such as certification of examination of the design.²
3. These submissions focus on two issues:
 - (a) Whether the proposed Crown use provisions permit the Court to “determine an amount of remuneration that is just and reasonable, having regard to the economic value of the use of the design and any other matter the court considers relevant”³ (the “Remuneration Issue”), in the case where the patentee is already exploiting the invention?
 - (b) Whether any step should be taken, to dissuade the Crown from circumventing the regime established for Crown use of patents and designs, following the amendments (the “Circumvention Issue”).

B. The Remuneration Issue

4. The submitter **attaches** his submission in relation to the IPLA Bill. Essentially, the concern expressed in that 2013 submission related to the Court’s power to award “just and reasonable” remuneration, in circumstances where the patentee was *actually* exploiting the invention.

² PC Part 2 Bill Schedule 3 Part 1 Item 7 the proposed s.98(3) of the *Designs Act*.

³ PC Part 2 Bill Schedule 2 Part 1 Item 11 the proposed s.165(2) of the *Patents Act*; PC Part 2 Bill Schedule 3 Part 1 Item 7 the proposed s.98(2).

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5. In such circumstances, the submitter considered that in the absence of any guidance in the legislation, the Court would adopt the jurisprudence of the UK decision in *Re Patchett's* case.⁴ That decision determined that the Crown, exercising its rights under the UK Crown use legislation, did not constitute an infringement. Accordingly, it was determined, the appropriate remuneration would be a royalty fee and not compensating the patentee for lost profit.
6. The position, in the submitter's opinion, is improved under the PC Part 2 Bill, in that the PC Part 2 Bill *expressly adds* Crown infringement under s.163(2) circumstances:

Despite subsection (1), if terms relating to the exploitation of the invention have been agreed or determined in accordance with section 165, the exploitation is an infringement unless the terms are complied with.
7. Under the IPLA Bill it was framed in terms of not being an infringement, if the conditions in s.163(2) of the IPLA Bill were satisfied. That also appears in the PC Part 2 Bill (s.163(1)), however the additional circumstance of non-compliance, creates a post-agreement or post-determination, opportunity for the Crown to infringe.
8. In the case, where there has not been compliance with the terms of an agreement or as determined by the Court, as set out in s.165(2) of the PC part 2 Bill, the Crown will be taken to infringe the patent and the argument for compensatory damages based on lost profits would, in those circumstances, be reasonable to make.⁵
9. However, where the Crown *has* complied with the terms of an agreement or presents itself to Court for the Court's determination under s.165, the Crown could argue that there is no infringement and therefore a royalty approach should apply.
10. The phrase "economic value of the exploitation of the invention" does assist the Court to consider the patentee's exploitation at the time of

⁴ (1967) R.P.C. 237.

⁵ In the case of Crown use of an invention the subject of an application only, although infringement cannot occur until after grant, damages can be calculated for the period of Crown use prior to grant.

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Crown use. However, given the matter may be put beyond doubt quite easily, the submitter recommends a “Note” or “Example” at the end of s.165(2), to the effect that the patentee exploiting the invention or taking steps towards the imminent exploitation of the invention at the time the Crown proposes exploitation, is a matter which the Court must consider relevant.⁶

C. The Circumvention Issue

11. The amendments to the *Patents Act* and *Designs Act*, by Schedules 2 and 3 respectively in relation to Crown use, are clearly designed, at least in part, to address concerns regarding bargaining inequality between small to medium businesses and the Crown. The EM states at [88]:

In the 2013 PC Report, the PC referred to previous reviews of the Crown use provisions⁷, where it was contended that the lack of guidance on pricing can leave patentees disadvantaged, and that the lack of an applied standard or criterion to refer to in negotiations could weaken their bargaining position in seeking to obtain fair and equitable agreement. This was particularly the case for small and medium enterprises, which did not have the negotiating power or skills of large businesses.⁸

12. No issue arises, where the Crown follows the “general rule” in s.163(3) of the *Patents Act* or the *Designs Act* equivalent. However, there is nothing compelling the Crown to follow the general rule. The only risk it takes, is that it will lose the protection afforded by Crown use provisions and be open to an infringement action.
13. The question the submitter asks is “Is that a sufficient deterrant to make the Crown comply with the “general rule” proposed for patents and designs? The submitter answers that question in the negative – it is not sufficient deterrent.

⁶ In the case of the proposed amendments to the *Designs Act*, this note, or example would appear after s.98(2).

⁷ Productivity Commission 2013, *Compulsory Licensing of Patents*, Inquiry Report No. 61, Canberra, p.178.

⁸ Advisory Council on Intellectual Property, 2005, *Review of Crown Use Provisions for Patents and Designs*, p. 28.

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14. For example, suppose the Crown is advised by a contractor it proposes to authorise to exploit the patent under proposed s.160A(1)(b)(ii) of the *Patents Act* or use the design under proposed s.95(2)(b)(ii) of the *Designs Act*, that, in their opinion having been in the industry for many years, that the patent is not novel or the design is not new and distinctive under s.15 of the *Designs Act*.

15. The Crown may, in those circumstances:

(a) choose not to comply with the general rule for Crown use of patents or designs as proposed, so as to bring about the situation that its exploitation is an infringement, thereby allowing the Crown to cross-claim to challenge the validity of the patent under s.121(1) of the *Patents Act*.⁹

(b) The Crown might choose to do nothing and allow its authorised person to oppose to a patent application,¹⁰ or seek revocation of the patent under s.138 of the *Patents Act*. Such an application may be made by “the Minister or any other person” to a prescribed court, for an order revoking a patent.

16. The submitter suggests, that the patentee then faces the following options:

(a) It is unlikely the patentee may approach the Court for a determination under the proposed s.165(1)(b) of the *Patents Act*, because the new provision has a threshold issue, namely, the terms and the remuneration, are premised on the exploitation “in the circumstances mentioned in subsection 163(3) or 163A(3). Notably, this threshold question does not presently appear in s.165.

(b) The patentee would have to commence expensive patent infringement proceedings, with the likelihood that there would be a cross-claim for revocation of the patent.

⁹ Under the *Designs Act* they could counter-claim under s.74 seeking revocation of the design registration under s.93.

¹⁰ There is no opposition process under the *Designs Act*, however a person person may apply to a prescribed court for an order revoking the registration of a design under s.93 of the *Designs Act*.

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- (c) A settlement conference with the Crown with a view to reaching an agreement, would respectfully, be imbalanced in favour of the Crown, as the patentee has now been manoeuvred into a position that if it does not capitulate to the Crown's terms, it faces expensive patent litigation covering infringement and validity.
17. Justification for this position upon which the Crown would no doubt rely, is found amongst other places, in the principles of accountability and achieving value with relevant money.¹¹
18. The submitter does not suggest there is any basis to limit the right of the Crown or the contractor to challenge the patent or the designs – those rights are not indefeasible. However, there should be some penalty imposed on the Crown and its authorised person, where such a challenge is undertaken unsuccessfully.
19. In this regard, the submitter considers the most obvious course is to insert into the *Patents Act* s.122A and *Designs Act* s.75(3), a sub-paragraph the Court considers it appropriate to have regard to, any unsuccessful application by the Crown or its authorised person or persons, to revoke the grant of the patent or remove the design registration from the register kept under Chapter 9 of the *Designs Act*.
20. In circumstances where there is no compulsion on the Crown to follow the general rule proposed in s.163(3) or the equivalent in the case of emergency set out in s.163A(3) and (4), the risk of some greater penalty against the Crown for non-compliance and being found to infringe the patent, seems justifiable.
21. The basis for this statement, is that with nothing to compel the Crown to follow the general rule, the patentee and design registrant face expensive enforcement litigation, which as a matter of practicality, will deter rights holders and exacerbate the negotiating imbalance.

¹¹ Commonwealth Grants Rules and Guidelines 2017 Part 2 Guidance on Key Principles.

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22. Further, even if the Crown followed the general rule, its authorised person could challenge the validity of the patent grant or design registration. In those circumstances, the Crown could apply for a stay of any determination as to the terms of remuneration, pending the outcome of either an infringement action with or without a cross-claim for invalidity or a unilateral application by the contractor, to challenge to the validity of the patent or design.
23. The submission is that, with such potential for avoiding the regime set out in Schedules 2 and 3 of the PC Part 2 Bill, there should be some penalty imposed on the Crown and its authorised person, where they are found to infringe the patent or design.

D. Conclusion

24. In relation to the Remuneration Issue, the submitter suggests a notation or example inserted after the relevant provision, would clarify the Court's position that it may take account in determining the terms of remuneration, whether the patentee is exploiting the patent. This would arguably make clear, that the exploitation of the patent by the patentee before the Crown exercised its right, entitles it to lost profits not a royalty fee.
25. The revocation and removal issue is more difficult to address. There is no provision compelling the Crown to follow the general rule in emergency and non-emergency situations. The Crown may trigger infringement by failing to comply with the general rule or it may follow that prescribed process and have its authorised person challenge the patent or design. In such circumstances, any determination of terms and remuneration, would reasonably have to wait for the conclusion of the infringement or revocation proceedings.
26. The Court has wide discretion under the "additional damages" provisions, to consider *any* relevant matter. However, if it is expressly stated to be a matter the Court is to have regard to in exercising its discretion to award additional damages, in the submitter's opinion, the playing field has a greater prospect of remaining level.

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