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**Submission to the Joint Select Committee on Treaties
Australia-United States Free Trade Agreement
A Critique of Industrial Property – Patents**

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SUMMARY

- This submission addresses only the patent-related provisions in the *Australia-United States Free Trade Agreement* (AUSFTA) Art 17, and in particular Art 17(9) Patents.
- While there is no doubt that Australia must implement the *Agreement on Trade Related Aspects of Intellectual Property Rights* (TRIPs) minimum standards, the issues raised in this submission is not about whether or not to have a patent scheme, but rather, the content of that scheme, and the desirability of measures that implement *more* than the minimum standards required by TRIPs (so-called ‘TRIPs-plus measures’).
- This submission challenges the basis for adopting TRIPs-plus measures and the various governmental approaches (policy, reviews, and so on) to justifying a conclusion that TRIPs-plus measures are necessarily appropriate to Australia’s economic and social circumstances.
- The submission concludes a clearly articulated patent policy may promote a more rigorous analysis of the competing interests and a more rational outcome for existing patent privileges and those proposed for the future, including those TRIPs-plus measures set out in the AUSFTA.
- The submission asserts that in assessing the TRIPs-plus measures the guiding principle of the *Competition Principles Agreement* (CPA) is a useful tool for identifying the desirability of restricting competition and this is the assessment framework that should be applied to the proposed TRIPs-plus measures set out in the patent-related provisions of the AUSFTA. Notably, the onus is on those advocating stronger and more comprehensive patent privileges to demonstrate their case.
- The submission argues that merely adopting the same patent approach and standards as the United States as the AUSFTA requires is likely to be an unnecessary restriction on competition, unless the Australian Government can demonstrate that the benefits of restricting competition outweigh the costs and that the objectives can only be achieved through restricting competition as required by the CPA.

1. INTRODUCTION

The analysis set out in this submission addresses only the patent privilege related provisions in the *Australia-United States Free Trade Agreement* (AUSFTA) Art 17, and in particular Art 17.9 Patents. This submission contends that Australia's approach to patent policy appears to reason that the most developed nations have benefited from innovation¹ with a strong intellectual property regime, and so with a similarly strong patent regime in Australia, those same benefits will accrue to Australia. However, an assessment in this submission of the Australian Government's innovation policy, the Australian Government's practices in dealing with intellectual property policy matters and recent reviews of patent laws questions the basis for adopting the patent policy of the most developed nations. Despite this assessment the submission acknowledges there may be other competing factors in the negotiation of the AUSFTA that justify the particular outcome, although these competing factors remain unknown.

As a starting point, any patent policy in Australia must accommodate the minimum standards now required of World Trade Organisation (WTO) members, such as Australia, in compliance with the *Agreement on Trade Related Aspects of Intellectual Property Rights* (TRIPs).² The minimum standards required by TRIPs are that 'patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial'.³ Significantly 'patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products

This work was supported, in part, by Australian Research Council grants to research 'Gene Patents in Australia: Options for Reform' and 'Developing a Systematic, Inclusive and Just Jurisprudential Account of TRIPs'.

¹ This submission distinguishes between 'invention' and 'innovation', the term 'invention' being a step in the process of 'innovation'. In this distinction, 'innovation' would include all the other commercial requirements to place an 'invention' on the market, including product development, marketing, and so on. This distinction is important as patents are an incentive to 'invention', but it is *not* clear whether they should also be an incentive to 'innovation'. In effect, this distinction reflects the differences between the 'reward' and 'prospect' theories justifying patent privileges: see Kevin Rhodes, 'The Federal Circuit's Patent Non-obviousness Standard: Theoretical Perspectives on Recent Doctrinal Changes' (1991) 85 *New York University Law Review* 1051, 1076-1100.

² *Marrakech Agreement Establishing the World Trade Organisation* [1995] ATS 8, Annex 1C (TRIPs).

³ TRIPs Art 27(1); noting that the terms 'inventive step' and 'capable of industrial application' are equivalent to the terms 'non-obvious' and 'useful' respectively.

are imported or locally produced'.⁴ The only allowable exclusions are 'inventions ... necessary to protect *ordre public* or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment',⁵ 'diagnostic, therapeutic and surgical methods for the treatment of humans or animals'⁶ and 'plants⁷ and animals other than micro-organisms, and essential biological processes for the production of plants or animals other than non-biological and microbiological processes'.⁸ These minimum standards are enforceable through a dispute settlement scheme proscribed in TRIPs.⁹

While these TRIPs minimum standards are open to some interpretation,¹⁰ there is no doubt that Australia must implement at least some form of patent scheme similar to the *Patents Act 1990 (Cth) (Patents Act)*. The issues raised in this submission is not about whether or not to have a patent scheme, but rather, the content of that scheme, and the desirability of measures that implement *more* than the minimum standards required by TRIPs (so-called 'TRIPs-plus measures'). This is an issue worthy of further consideration as Australia has been at the vanguard of the TRIPs agreement. Australia has championing its implementation through a rapid adoption of its minimum standards¹¹ and adopting additional TRIPs-plus measures (such as more restrictive compulsory licensing, patent term extensions and failing to take advantage of the allowable exceptions under TRIPs). Further Australia has sought to ensure its effects are passed through to other international and regional agreements.¹² This same approach is now reflected in the proposed AUSTFA.¹³ However, this submission challenges the basis for adopting TRIPs-plus

⁴ TRIPs Art 27(1).

⁵ TRIPs Art 27(2).

⁶ TRIPs Art 27(3)(a).

⁷ Noting that plant varieties must be protected either by 'patents or by an effective *sui generis* system or by any combination thereof': TRIPs Art 27(3)(b).

⁸ TRIPs Art 27(3)(b).

⁹ TRIPs Art 64.

¹⁰ See for example Dianne Nicol and Jane Nielsen, 'The Australian Medical Biotechnology Industry and Access to Intellectual Property: Issues for Patent Law Development' (2001) 23 *Sydney Law Review* 347, 363-364.

¹¹ See *Patents (World Trade Organisation) Amendment Act 1994 (Cth)*.

¹² See for example the *Singapore-Australia Free Trade Agreement* [2003] ATS 16, ch 13 Art 2(1).

¹³ See AUSFTA Art 17(9).

measures and the various governmental approaches (policy, reviews, and so on) to justifying a conclusion that TRIPs-plus measures may necessarily be justified.

The Australia Government's stance reflects the underlying economic objective that '[i]nnovation – developing skills, generating new ideas through research and turning them into commercial success – is a key driver of productivity and economic growth',¹⁴ of which intellectual property is believed to assist as an incentive to innovate, in capturing the commercial success and in accessing new technology and know how.¹⁵ An apparently similar consensus exists among other developed nations.¹⁶ However, the exact place and role of TRIPs-plus patent measures in Australia's innovation policy, expressed in *Backing Australia's Ability*,¹⁷ the central innovation policy articulated by the Australian Government, is not very clear.

This submission challenges the reasoning for adopting TRIPs-plus measures under the *Patents Act* and suggests that the modern Australian policy grasp for 'strengthened' intellectual property rights has failed to consider the lack of evidence actually demonstrating the benefits from adopting more than TRIPs' minimum patent requirements for the Australian economy. The submission concludes the TRIPs-plus measures in the *Patents Act* should be reviewed and removed unless justified because the restriction to the community as a whole outweighs the costs and that the objectives can only be achieved with these measures. This is the principle and standard against which laws restricting competition must be assessed according to the requirements of the *Competition Principles Agreement (CPA)* that forms part of the *National Competition Policy (NCP)*.¹⁸ The same principles and standards should also be applied to AUSFTA.

¹⁴ Commonwealth, *Backing Australia's Ability: Real Results Real Jobs – Innovation Report 2002-2003* (2003) 1 (BAA 2002-03); see also Commonwealth, *Backing Australia's Ability: Real Results Real Jobs – Innovation Report 2003-2004* (2003) 1; Commonwealth, *Backing Australia's Ability: An Innovation Action Plan for the Future* (2001) 7 (BAA 2001).

¹⁵ BAA 2001, above n 14, 18

¹⁶ See BAA 2002-03, above n 14, 1; Organisation for Economic Co-operation and Development, *OECD Science, Technology and Industry Scoreboard 2003* (2003) 16-17.

¹⁷ BAA 2001, above n 14.

¹⁸ The NCP comprises a series of agreements between the Commonwealth, States and Territories (see National Competition Council, *Compendium of National Competition Policy Agreements* (1997)), legislative measures to limit anti-competitive conduct and ensure access to essential facilities (such as the

In challenging the contention that Australia's approach to patent policy reasons that the most developed nations have benefited from innovation with a strong intellectual property regime, and so with a similarly strong patent regime in Australia, those same benefits will accrue to Australia, the submission is structured as follows:

- Part 2 examines the theoretical justifications for patents restricting competition. This is a significant question as the detailed justification and objectives of patents as a policy tool to promote invention are not settled.
- Part 3 examines the patent-related component of the Australian Government's current innovation policy set out in *Backing Australia's Ability*.¹⁹ The analysis shows the uncertain place of patents in this innovation strategy and the divergence between the initial policy articulation and its implementation.
- Part 4 sets out the results of a recent attempt to assess the Australian Government's understanding of the broader issues about intellectual property. The results suggest some confusion about the way patent policy is articulated by the Australian Government, that there is no comprehensive Australian Government patent policy and that the Australian Government considers the Intellectual Property and Competition Review Committee (IPCR Committee) set a 'benchmark' against which intellectual property initiatives might be assessed.
- Part 5 examines the place of patents in the Australian Government's implementation of competition policy under the CPA. The analysis raises concerns about the approach adopted by the IPCR Committee (and the National Competition Council; NCC) in reviewing patent laws under the CPA and whether this is in effect an adequate assessment of patent laws according to the requirements of the CPA.
- Part 6 examines some of the 'flexibility' in TRIPs that Australia might take advantage of to develop patent laws suited to its particular economic and social circumstances. This is significant as the AUSFTA sets out provisions that would exclude this

Trade Practices Act 1974 (Cth)) and government bodies to oversee the application of the NCP (such the Australian Competition and Consumer Commission and the National Competition Council).

¹⁹ BAA 2001, above n 14.

‘flexibility’ tying Australian patent law developments to those favoured by the United States.

- Part 7 then sets out an analysis of some of the patent-related provisions in the AUSFTA that seek to impose TRIPs-plus measures. While this assessment is not comprehensive, there is sufficient concern that the AUSFTA will impose a significant departure from TRIPs’ minimum standards to require a proper assessment of the costs and benefits justifying this departure.
- Part 8 then sets out the conclusions that while the trade-off of TRIPs-plus measures in the patent-related provision of the AUSFTA are unknown, in isolation merely adopting the same patent approach and standards as the United States without the assessment required by the CPA is likely to be an unnecessary restriction on competition, unless the Australian Government can demonstrate that the benefits of restricting competition and that the objectives can only be achieved through restricting competition.

This submission assumes that patent law set out in the *Patents Act* and competition law set out in the *Trade Practices Act 1974 (Cth)* (*Trade Practices Act*) both seek to promote invention with the objective of enhancing consumer welfare. Patents achieve this through addressing the market failure for invention and competition law through protecting the process of competition (rather than competitors). In practice, the *Patents Act* establishes the threshold criteria for the grant of the statutory privilege (the ‘exclusive rights’) with some exemptions from competition (such as compulsory licensing and so on). The *Trade Practices Act* seeks to establish the boundaries of lawful conduct necessary to sustain and promote vibrant competition. While the place of competition law is central to establishing an appropriate balance, competition laws are not considered here although their effectiveness in Australia in limiting a patent privilege holder’s conduct is unlikely.²⁰

²⁰ For an assessment of this contention see Charles Lawson, ‘Patenting Genes and Gene Sequences and Competition: Patenting the Expense of Competition’ (2002) 30 *Federal Law Review* 97.

2. THEORETICAL JUSTIFICATION FOR RESTRICTING COMPETITION

Patents are a utilitarian measure to promote invention²¹ and address the market failure for invention.²² According to this model, effective competition together with good market information may create a disincentive to markets inventing (the market failure) because new developments may be rapidly copied without the recovery of the inventor's development costs (a free ride).²³ A patent under the *Patents Act* compensates for this disincentive to invent.²⁴ The limited period of 'exclusive rights'²⁵ is justified so that the inventor may exclude others in order to recover the development costs (confounding the free riders) and contribute to beneficial invention (and enhanced competition for the welfare of consumers) by investing in new developments (with the added benefit of disclosure of the invention).²⁶

²¹ Although the current imperative of economic policy in Australia is to foster economic growth: see for example BAA 2001, above n 14, 1; Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000) 5; Commonwealth, *Investing for Growth* (1997) 3-7; an alternative justification for promoting competition is to more efficiently and effectively allocate existing scarce resources for the benefit of consumers.

²² This submission distinguishes between 'invention' and 'innovation', the term 'invention' being a step in the process of 'innovation'. In this distinction, 'innovation' would include all the other commercial requirements to place an 'invention' on the market, including product development, marketing, and so on. This distinction is important as patents are an incentive to 'invention', but it is *not* clear whether they should also be an incentive to 'innovation'. In effect, this distinction reflects the differences between the 'reward' and 'prospect' theories justifying patent privileges: see Kevin Rhodes, 'The Federal Circuit's Patent Non-obviousness Standard: Theoretical Perspectives on Recent Doctrinal Changes' (1991) 85 *New York University Law Review* 1051, 1076-1100.

²³ Trade Practices Commission, *Application of the Trade Practices Act to Intellectual Property* (1991) 8.

²⁴ Such as, 'the uncertainty of pay off from R&D and innovation activity' and 'the limited ability of the inventor/innovator to appropriate profits arising from the use of the new knowledge generated': see Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (1984) 12; Bureau of Industry Economics, *The Economics of Patents*, Occasional Paper No 18 (1994) 13.

²⁵ *Patents Act* s 13; thus, for a period of up to 20 years from the date of lodging the claim (s 67 provides a minimum term of 20 years from the lodgment of a claim and s 77 provides the term may be extended for certain pharmaceuticals up to 25 years from lodgment), including the 'exclusive rights, during the term of the patent, to exploit the invention and to authorise another person to exploit the invention' (s 13(1)) which is 'personal property ... capable of assignment and devolution by law' (s 13(2)). The term 'exploit', in relation to a product invention, includes 'make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of these things' (sch 1). In relation to a process invention, it includes 'use the method or process or do any act mentioned [for the product invention] in respect of a product resulting from such use' (sch 1).

²⁶ Trade Practices Commission, *Application of the Trade Practices Act to Intellectual Property* (1991) 8; for a review of the policy objectives of patenting see Thomas McCarthy, 'Intellectual Property and Trade Practices Policy: Coexistence or Conflict? The American Experience' (1985) 13 *Australian Business Law Review* 198, 200-203; note that there are different views about whether disclosure is a primary purpose of

While the economic theory justifies a patent privilege in the form of statutory 'exclusive rights', it is certainly not clear whether the social costs in Australia's particular economic circumstances always outweigh the social benefits from current patenting practices²⁷ and what are the appropriate patent scope and allocation.²⁸ Recent developments in the application of the internationally agreed minimum standards set by the TRIPs confirm the uncertain standard of the patent threshold requirements, and suggest considerable 'flexibility' in how WTO member states may satisfy these minimum patent standards (considered further in Part 6). The challenge for Australia's patent policy makers is to develop an 'effective and adequate' patent scheme²⁹ that fulfils its obligations under TRIPs, noting that the over-riding objective of TRIPs was that:

The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.³⁰

In developing an appropriate domestic patent policy, patent privileges should only be granted to the extent necessary to encourage invention (the incentive).³¹ Further, the onus is on those advocating patent privileges in addition to the minimum standards required by Australia's commitment to international agreements (such as TRIPs), to demonstrate that:

patenting, or merely an additional benefit: see for example Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) ch 1 (6).

²⁷ Some commentators have expressed concerns that the highly protective patent standards applied by the United States and the European Union may be unduly favoring the private rights of inventors at the expense of competitors and users, particularly in economies that are net technology importers: see for example Keith Maskus, *Intellectual Property Rights in a Global Economy* (2000) 237-238.

²⁸ See for example Dan Burk and Mark Lemley, 'Policy Levers in Patent Law' (2003) 89 *Virginia Law Review* 1575, 1595-1630.

²⁹ Recognising that TRIPs was intended to '... to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade': TRIPs Preamble.

³⁰ TRIPs Art 7.

³¹ It is generally accepted that patent privileges are necessary in some form, although they should not be absolute: see James Langenfeld, 'Intellectual Property and Antitrust: Steps Towards Striking a Balance' (2001) 52 *Case Western Reserve Law Review* 91, 96-98.

- (a) The benefits of the restriction to the community as a whole outweigh the costs; and
- (b) The objectives of patent privileges can only be achieved by restricting competition.³²

A key measure in assessing the adequacy of the incentive is that the incentive is directed to the true inventor (and their investors) and only for inventions that would not otherwise have been made.³³ In particular, patents should not protect inventors (and their licensees and assignees) from competition from other inventors (and their licensees and assignees) for an investment in invention they would be making anyway as part of their innovation strategy to remain competitive.³⁴

In essence, patents impose social costs even when they are within the bounds of lawful use under competition laws. The threshold and other criteria for access to the statutory privileges under the *Patents Act* are important to ensure efficiencies – too low a threshold and competition is unnecessarily fettered to the detriment of consumers (and the community as a whole) and too high and the incentive is extinguished. The challenge is to tailor patent privileges to the appropriate level of incentive. This question remains contentious, with a number of other regulatory factors affect the appropriate settings (including the appropriate competition and taxation policy).³⁵ The following Part 3 considers the Australian Government's innovation policy articulated in *Backing Australia's Ability*.

³² This is the 'guiding principle' of the *Competition Principles Agreement*: see *Competition Principles Agreement* cl 5(1).

³³ See for example Justice Posner in *Roberts v Sears Roebuck & Co* 723 F.2d 1324, 1346 (1983): 'if a court thinks an invention for which a patent is being sought would have been made as soon or almost as soon as it was made even if there were no patent laws, it must pronounce the invention obvious and the patent invalid'.

³⁴ Recognising that this 'but for' requirement has proved very difficult to articulate as a general, non-discriminatory threshold standard: see Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) ch 1 (10).

³⁵ See for example Keith Maskus, 'Intellectual Property Challenges for Developing Countries: An Economic Perspective' (1998) *University of Illinois Law Review* 457.

3. *BACKING AUSTRALIA'S ABILITY AND PATENT POLICY*

The foundation document of the current Australian Government's innovation policy, *Backing Australia's Ability*, provided, in part:

Backing Australia's Ability supports greater commercial application of research results. In addition to direct support for R&D, the Government aims to improve the flow of finance into business innovation and to stimulate growth of innovative firms by improving Australia's capacity to commercialise research and new technologies.

This will also be achieved through initiatives to enhance Australia's capacity to build and manage innovative enterprises, encourage the spin-off opportunities from industry research collaboration, strengthen our intellectual property (IP) management processes and increase access to global research and technologies.³⁶

Backing Australia's Ability was the culmination of various consultations,³⁷ industry plans³⁸ and government 'thinking',³⁹ with an overall objective of 'developing skills, generating new ideas through research, and turning them into commercial success'.⁴⁰ The government saw its role as providing 'the best possible economic, tax and educational framework' and 'targeted direct support in areas where private sector funding is not appropriate or available'.⁴¹ This policy was guided by a recognition 'that Australia is now at a crossroads',⁴² citing a communiqué from the consultation process:

We are in the midst of a revolution from which a new order is emerging. The solutions of past decades will not suffice in the new knowledge age. Intangible assets – our human and intellectual capacity – are outstripping traditional assets – land, labour and capital – as the drivers of growth. If we are to take the

³⁶ BAA 2001, above n 14, 18.

³⁷ See for example Department of Industry, Science and Resources, *Innovation—Unlocking the Future: Final Report of the Innovation Summit Implementation Group* (2000).

³⁸ See for example Department of Industry, Science and Tourism, *Investing for Growth: The Howard Government's Plan for Australian Industry* (1997).

³⁹ See for examples House of Representatives Standing Committee on Industry, Science and Technology, *Innovation: A Concept to Market* (1995); House of Representatives Standing Committee on Industry, Science and Resources, *The Effect of Certain Policy Changes on Australian R&D* (1999); House of Representatives Standing Committee on Industry, Science and Resources, *Getting a Better Return* (2001).

⁴⁰ BAA 2001, above n 14, 7; see also BAA 2002-03, above n 14, 1

⁴¹ BAA 2001, above n 14, 7.

⁴² BAA 2001, above n 14, 8.

high road, a road of high growth based on the value of our intellectual capital, we need to stimulate, nurture and reward creativity and entrepreneurship.⁴³

Backing Australia's Ability articulated a strategy to support 'the essential ingredients for a dynamic and productive innovation system' though focusing on 'strengthening our ability to generate ideas and undertake research', 'accelerating the commercial application of these ideas' and 'developing and retaining Australian skills'.⁴⁴ The immediate effect of *Backing Australia's Ability* was additional funding,⁴⁵ but its longer-term effect on patent privileges was not articulated at the time, and has been articulated through subsequent implementation of the policy.

Significantly, *Backing Australia's Ability*, as it was articulated in 2001, *only* sought to 'strengthen our intellectual property (IP) management processes and increase access to global research and technologies',⁴⁶ and makes no mention that this be achieved through a scheme that creates greater and stronger privileges for inventors. However, by 2002 the implementation of *Backing Australia's Ability* involved, almost without question, enhancing the privileges of patent holders, based on the conclusion that a '[s]ound intellectual property (IP) *protection* and management are both critical for a successful innovation system' (emphasis added) and a need for 'fundamental changes to the patent system, to provide better protection and meet the needs of those using our IP regulatory regime'.⁴⁷ *Backing Australia's Ability* had evolved to offer a 'range of IP initiatives that strengthen our ability to protect our ideas and better capture returns from commercialisation'.⁴⁸ These initiatives included various management and awareness programs and legislative amendments.⁴⁹

⁴³ BAA 2001, above n 14, 8.

⁴⁴ BAA 2001, above n 14, 14.

⁴⁵ Being \$2.9 billion of additional funding over 5 years: see BAA 2001, above n 14, 14.

⁴⁶ BAA 2001, above n 14, 18; see also BAA 2002-03, above n 14, 7.

⁴⁷ Commonwealth, *Backing Australia's Ability: Real Results Real Jobs – Innovation Report 2001-2002* (2002) 14.

⁴⁸ Commonwealth, *Backing Australia's Ability: Real Results Real Jobs – Innovation Report 2001-2002* (2002) 14.

⁴⁹ See for examples Commonwealth, *Backing Australia's Ability: Real Results Real Jobs – Innovation Report 2001-2002* (2002) 59.

Legislative changes that reflected and effected *Backing Australia's Ability*,⁵⁰ included extending the term of some pharmaceutical patents to 25 years from lodgment subject to 'spring-boarding' provisions and higher fees,⁵¹ introducing an 'innovation patent' to replace the existing 'petty patent' scheme,⁵² and grace periods.⁵³ More recently, the *Patents Amendment Act 2001* (Cth) put into effect the recommendations of the IPCR Committee and the Australian Council on Industrial Property's (ACIP) review of patent enforcement.⁵⁴ These measures included increasing the scope of prior art taken into account when assessing novelty and inventive step,⁵⁵ and changing the standard of proof to a 'balance of probabilities' test for the novelty and inventive step requirements, rather than giving the applicant the benefit of any doubt.⁵⁶ Significantly however, there has been no review of patent legislation or practice assessing what are the TRIPs-plus measures, and whether they are necessary or justified in promoting the objectives of the *Backing Australia's Ability* initiative. This is surprising given the Commonwealth and State governments' commitment to the NCP (this is addressed in greater detail in Part 5 below).

This submission does not question the need to better manage patent grants as a way of improving innovation, (and hence competition) in Australia for the benefit of consumers by working inventions to promote competitiveness. Rather, the question is whether more and stronger patents are in fact what are needed in the absence of a proper analysis of the

⁵⁰ In reporting on the effectiveness of *Backing Australia's Ability*, the government claimed its earlier changes to the *Patents Act* as significant: see Commonwealth, *Backing Australia's Ability: Real Results Real Jobs – Innovation Report 2001-2002* (2002) 14.

⁵¹ See *Intellectual Property Laws Amendment Act 1998* (Cth).

⁵² See *Patents Amendment Act 2001* (Cth).

⁵³ See *Patents Amendment Act 2001* (Cth).

⁵⁴ See Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000); Australian Council on Industrial Property, *Review of Enforcement of Industrial Property Rights* (1999).

⁵⁵ Although amendments in the Senate in effect undermined the potential benefits of expanding the scope of prior art by limiting the effective scope of these measures at the examination stage as the prior art base does not include 'information made publicly available only through the doing of an act (whether in or out of the patent area)' (ss 45(1A) and 48(1A)).

⁵⁶ Commonwealth, *Parliamentary Debates*, House of Representatives, 24 May 2001, 26974 (Parliamentary Secretary to the Minister for Industry, Science and Resources).

competing views about patent scope and allocation⁵⁷ under the existing CPA requirements. *Backing Australia's Ability* in its original articulation *does not* advocate more and stronger patent privileges, but rather the management of those rights on the basis that managing patent privileges should promote competition and the benefits of competition. What is missing from the subsequent articulations of *Backing Australia's Ability* is a comprehensive patent policy identifying the goals of an Australian patent privilege scheme, including the role for patents as an incentive to invention and innovation. In particular it is submitted this policy should address:

- (a) Whether the market failure that patent privileges seek to address are for invention or investment in innovation, the latter might be more appropriately addressed through other measures (such as the plethora of other government incentive schemes, tax laws, and so on);
- (b) Whether the incentive established by the current patenting practices is inadequate, adequate or excessive;
- (c) Whether the threshold patenting criteria in the *Patents Act* are satisfactory to exclude inventions that are not efficient (and more broadly, the appropriateness of Australia adopting patent standards in addition to the minimum requirements of TRIPs);
- (d) Whether competition laws (including those restrictions set out in the *Patents Act* such as compulsory licensing and forfeiture) should limit the use of a patented invention, or only conduct seeking a collateral advantage; and

⁵⁷ The almost uncontroversial objective of patent privileges is to promote invention. The controversy relates to how this is best achieved: for an overview of the current competing theories see Dan Burk and Mark Lemley, 'Policy Levers in Patent Law' (2003) 89 *Virginia Law Review* 1575, 1595-1630.

- (e) Whether patents should protect firms from competition from other firms for an investment in invention they would be making anyway as part of their innovation strategy to remain competitive.

While these are complex questions, attention to their solutions should assist in articulating a patent policy that promotes a broader assessment of the assumed benefits from patents and a focus on the specific needs of the Australian economy. Significantly, the 'flexibility' in TRIPs (discussed in more detail in Part 6) suggests considerable latitude in developing a rational patenting policy and regulatory scheme is possible, although it will need to be carefully articulated and implemented to avoid potential challenge under the TRIPs' dispute settlement scheme. Until these questions have been addressed the entrenching of TRIPs-plus measures in the Australian economy, like those set out in the AUSFTA (discussed in more detail in Part 7), may not be justified. However, before considering these matters further, Part 4 sets out the results of a recent attempt to assess the Australian Government's understanding of the broader issues about intellectual property.

4. INTELLECTUAL PROPERTY IN AUSTRALIAN GOVERNMENT

Intellectual property issues are often incidental to the main matters under consideration in the negotiation of international agreements. Thus under the AUSFTA intellectual property is merely one of a number of matters under consideration and the potential detriments from adopting unnecessarily high intellectual property standards might be offset by a superior outcome on another matter. This was probably the reason Australia adopted TRIPs with the expectation that trade liberalization in agriculture and other industries would outweigh the high social costs of paying higher charges for predominantly imported intellectual property protected products, processes and information.⁵⁸ However, this assumes that the impacts and benefits of intellectual property were considered and assessed at the time. Perhaps more importantly in more recent times has been the assumption that these agreed outcomes are appropriate when the expectation of freer trade may not have been realized. The recently concluded negotiation of the *International Treaty on Plant Genetic Resources for Food and Agriculture* (PGRFA Treaty)⁵⁹ illustrates this contention.

Australia recently concluded its negotiation of the PGRFA Treaty that is central to Australia maintaining access to key germplasm to maintain its agricultural competitiveness. The PGRFA Treaty included a key provision dealing with intellectual property privileges over plant genetic resources accessed from the PGRFA Treaty's Multilateral System.⁶⁰ The Department of Agriculture, Forestry and Fisheries led the negotiations,⁶¹ and presumably the negotiation stance adopted by Australia addressing the patent provisions included the perspectives from other Australian Government

⁵⁸ See for example Industry Commission, *Extending Patent Life: Is it in Australia's Economic Interests?*, Staff Information Paper (1996) 29; this paper reports that '[a]ccording to the Australian Industrial Property Organisation ..., Australia initially advocated a minimum period of 15 years for the term of a standard patent, as a suitable compromise between the needs of developing and developed countries. Australia acceded to a minimum term of 20 years in order to ensure the successful completion of the Uruguay Round negotiations of the GATT' (29).

⁵⁹ [2002] ATNIF 14.

⁶⁰ For an overview of the treaty and a review of the negotiating process concerning the intellectual property related provisions see Charles Lawson, *Patents, plant breeder's rights and the International Treaty on Plant Genetic Resources for Food and Agriculture*, Submission to the Joint Standing Committee on Treaties inquiry into the International Treaty on Plant Genetic Resources for Food and Agriculture (2004).

⁶¹ See Department of Agriculture, Fisheries and Forestry – Australia, *Annual Report 2001-02* (2002) 41.

Departments and other stakeholders with overlapping interest.⁶² The PGRFA Treaty addresses a subset of materials covered in part by the *Convention on Biological Diversity*⁶³ and its implementation in Australia in the *Environment Protection and Biodiversity Conservation Act 1999* (Cth)⁶⁴ according to a different scheme that includes the place of patent privileges dealt with by the Department of Environment and Heritage.⁶⁵ Other Departments with a likely direct interest include the Department of Industry, Tourism and Resources dealing with patents,⁶⁶ the Department of Foreign Affairs and Trade dealing with treaties and trade policy,⁶⁷ the Department of Education, Science and Training dealing with science (and science research) policy,⁶⁸ and a number of other Australian Government entities with sectoral interest, such as the Research and Development Corporations with particular agricultural constituencies,⁶⁹ State and Territory governments with agricultural programs⁷⁰ and the non-government sectors with particular interests.⁷¹ The main purpose of the PGRFA Treaty was to deal with particular plant genetic resources for food and agriculture, with intellectual property issues being an

⁶² The National Interest Analysis sets out a list of entities consulted during negotiation, signature and proposed ratification: http://www.aph.gov.au/house/committee/jsct/pgrfa/treaties/pgrfa_nia.pdf, att 1; see also Commonwealth, *Parliamentary Debates*, Senate, 3 December 2002, 7085 (Documents Tabled).

⁶³ [1993] ATS 32; this potentially includes materials covered by the *Convention on the Law of the Sea*: [1994] ATS 31.

⁶⁴ For an analysis of the relevant intellectual property provisions see Charles Lawson and Catherine Pickering, 'The Conflict for Patented Genetic Materials Under the *Convention on Biological Diversity* and the *Agreement on Trade Related Aspects of Intellectual Property Rights*' (2001) 12 *Australian Intellectual Property Journal* 104; Charles Lawson and Susan Downing, 'It's Patently Absurd – Benefit Sharing Genetic Resources from the Seas According to UNCLOS, the CBD and TRIPs' (2002) 5 *International Journal of Wildlife Law and Policy* 211.

⁶⁵ See *Administrative Arrangement Order* (18 December 2003) sch pt 7; this is to be effected through regulations under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth); for an analysis of these regulations see Brad Sherman, 'Regulating Access and Use of Genetic Resources: Intellectual Property Law and Biodiscovery' (2003) 25 *European Intellectual Property Review* 301, 302.

⁶⁶ See *Administrative Arrangement Order* (18 December 2003) sch pt 13.

⁶⁷ See *Administrative Arrangement Order* (18 December 2003) sch pt 10.

⁶⁸ See *Administrative Arrangement Order* (18 December 2003) sch pt 5.

⁶⁹ For example the Grains Research and Development Corporation under the *Primary Industries and Energy Research and Development Act 1989* (Cth) and *Grains Research and Development Corporation Regulations 1990* (Cth) and the Rural Industries Research and Development Corporation under the *Primary Industries and Energy Research and Development Act 1989* (Cth) and the *Rural Industries Research and Development Corporation Regulations 2000* (Cth).

⁷⁰ For example the Tasmanian Government, *Submission to the Joint Standing Committee on Treaties*, Submission to the Joint Standing Committee on Treaties inquiry into the International Treaty on Plant Genetic Resources for Food and Agriculture (2003).

⁷¹ See for example the Seed Industry Association of Australia, *Submission to the Joint Standing Committee on Treaties*, Submission to the Joint Standing Committee on Treaties inquiry into the International Treaty on Plant Genetic Resources for Food and Agriculture (2003).

ancillary matter. However, exactly how the Department of Agriculture, Forestry and Fisheries formulated a negotiating stance for dealing with the patent related issues in the PGRFA Treaty are uncertain, although the negotiating documents suggest Australia assumed that the existing domestic patent policy setting were necessarily appropriate:

Australia's primary concern is to ensure that the final formulation of this [intellectual property] provision is clear and enables Australia to continue to exercise its existing rights in accordance with domestic and international law. From an Australian perspective, it is essential that the final text allows continuation of our domestic policy permitting [intellectual property] protection for genetic material which meets relevant standards.⁷²

The significance of this negotiating stance was to assume that the existing policy settings were appropriate, when in the circumstances it is not certain that Australia's need for access to key germplasm is necessarily benefited by commodifying the developments to these resources.⁷³ In an attempt to assess the way the Australian Government makes and then implements its policy dealing with intellectual property a series of questions were directed to each of the ministries.⁷⁴ The results were significant in suggesting that the incidental place of intellectual property in international and domestic agreements, and their likely effects across the Australian Government's business, were poorly understood. If this is correct then the input of these various parts of the Australian Government may not necessarily reflect a proper consideration of the costs, benefits and consequences of the existing intellectual property policy settings.

⁷² Council of the Food and Agriculture Organisation of the United Nations, *International Undertaking on Plant Genetic Resources Information Pursuant to Rule XXI.1 of the General Rules of the Organisation*, CL 121/5-Sup.1 (2001) 6.

⁷³ For an assessment of this contention see Charles Lawson, 'Patents and the CGIAR system of International Agricultural Research Centres' germplasm collections under the International Treaty on Plant Genetic Resources for Food and Agriculture' (2004) 55 *Australian Journal of Agricultural Research* 307; Charles Lawson, *Patents, plant breeder's rights and the International Treaty on Plant Genetic Resources for Food and Agriculture*, Submission to the Joint Standing Committee on Treaties inquiry into the International Treaty on Plant Genetic Resources for Food and Agriculture (2004); Seed Industry Association of Australia, *Submission to the Joint Standing Committee on Treaties*, Submission to the Joint Standing Committee on Treaties inquiry into the International Treaty on Plant Genetic Resources for Food and Agriculture (2003).

⁷⁴ Letters were prepared and sent to each Cabinet Minister on 12 September 2003, each letter setting out an identical series of questions.

While these questions directed to each of the ministries were about intellectual property generally, they provide some insight into the particular approach to developing and then implementing a patent policy. The questions directed to each ministry were:⁷⁵

Please can you outline:

- (a) how the Australian government interprets its commitments to international intellectual property right schemes;
- (b) how your department interprets its commitments to international intellectual property right schemes;
- (c) how your department implements its commitments to international intellectual property right schemes, taking into account the different views and interests:
 - (i) across the whole of government; and
 - (ii) within your portfolio (or other relevant groupings within your portfolio responsibility);
- (d) how your department resolves competing views and interests across the different areas within your portfolio about intellectual property right issues;
- (e) how National Competition Policy has a role in determining your department's interpreting, developing and implementing intellectual property right policy and practice;
- (f) how the whole of government intellectual property right policy is taken into account by your department in negotiating agreements that involve intellectual property issues, both:
 - (i) domestically; and
 - (ii) internationally; and
- (g) how are the views and interests of those outside government taken onto account in:
 - (i) interpreting and implementing your department's commitments to intellectual property rights; and
 - (ii) resolving competing views and interests across your portfolio (or other relevant groupings within your portfolio responsibility) about intellectual property rights.

None of the responses specifically dealt with each question, instead providing either a general response,⁷⁶ or referring the matter to another department for a response.⁷⁷

⁷⁵ The ministries were The Prime Minister, Minister for Employment and Workplace Relations, the Attorney-General, Minister for Communications, Information Technology and the Arts, Minister for Transport and Regional Services, Minister for Foreign Affairs, Minister for Defence, Minister for the Environment and Heritage, Minister for Industry, Tourism and Resources, Minister for Finance and Administration, Minister for Education, Science and Training, Minister for Health and Ageing, Minister for Immigration and Multicultural and Indigenous Affairs, The Treasurer, Minister for Agriculture, Fisheries and Forestry, Minister for Trade and Minister for Family and Community Services.

According to the *Administrative Arrangement Orders*,⁷⁸ the following departments deal with the following statutory intellectual property schemes: copyright by the Attorney-General's Department,⁷⁹ patents, trademarks and designs by the Department of Industry, Tourism and Resources.⁸⁰ The following legislation is administered by the following Ministers: *Copyright Act 1968* (Cth), *Circuit Layouts Act 1989* (Cth) by the Attorney-General,⁸¹ *Patents Act, Designs Act 1906* (Cth)⁸² and *Trade Marks Act 1995* (Cth) by the Minister for Industry, Tourism and Resources.⁸³ The formal responses suggest there is some confusion about where the policy responsibility for intellectual property resides in the Australian Government and in particular the responsibility for making and articulating policy. Thus, the Minister for Agriculture, Fisheries and Forestry and the Treasury considered the Attorney-General was responsible for all intellectual property issues.⁸⁴ The Minister for Transport and Regional Services considered the Minister for Communications, Information Technology and the Arts was responsible.⁸⁵ The Department of the Prime Minister and Cabinet considered the Minister for Industry, Tourism and Resources was responsible.⁸⁶ The Department of Employment and Workplace Relations considered 'the Australian Government's IP policies is shared between the Attorney-General's Department, the Department of Communication[s],

⁷⁶ Minister for Education, Science and Training, Department of Communications, Information Technology and the Arts, Minister for Industry, Tourism and Resources, Minister for Defence, Department of Foreign Affairs and Trade, Department of Environment and Heritage, Attorney-General's Department, Minister for Finance and Administration, Department of Family and Community Services and Department of Health and Ageing.

⁷⁷ Minister for Agriculture, Fisheries and Forestry, Minister for Transport and Regional Services, Department of Prime Minister and Cabinet, Department of Employment and Workplace Relations, The Treasury and Department of Immigration and Multicultural and Indigenous Affairs.

⁷⁸ Made by the Governor-General of Australia on 18 December 2003.

⁷⁹ See *Administrative Arrangement Order* (18 December 2003) sch pt 2.

⁸⁰ See *Administrative Arrangement Order* (18 December 2003) sch pt 13.

⁸¹ See *Administrative Arrangement Order* (18 December 2003) sch pt 2.

⁸² Noting that the *Designs Act 2003* (Cth) ss 1 and 2 commenced on 17 December 2003 (see s 2) and the remaining provisions on proclamation (see s 2).

⁸³ See *Administrative Arrangement Order* (18 December 2003) sch pt 13.

⁸⁴ Letter, Office of the Hon Warren Truss MP to the author, 24 December 2003; Letter, The Treasury to the author, 11 November 2003.

⁸⁵ Letter, Office of the Hon John Anderson MP to the author, 25 September 2003.

⁸⁶ Letter, Department of Prime Minister and Cabinet to the author, 25 September 2003.

Information Technology and the Arts and IP Australia'.⁸⁷ The Department of the Environment and Heritage considered the Attorney-General had formal responsibility for all copyright matters.⁸⁸ The Minister for Finance and Administration considered intellectual property policy was under the portfolio responsibility of the Minister for Industry, Tourism and Resources.⁸⁹ The Department of Family and Community Services considered the Department of Communications, Information Technology and the Arts was responsible for most government policy on intellectual property sharing responsibility for copyright matters with the Attorney-General's Department.⁹⁰ The Minister for Defence considered Australian Government's intellectual property policies were shared between the Attorney-General's Department and the Department of Communications, Information Technology and the Arts.⁹¹

A number of other departments and ministers also administer legislative schemes directly affecting intellectual property. For example the Attorney-General administers the *Trade Practices Act 1974* (Cth) pt V,⁹² the Minister for Industry, Tourism and Resources the *Olympic Insignia Protection Act 1987* (Cth),⁹³ the Minister for Agriculture, Fisheries and Forestry for certain information supplied according to the Agricultural and Veterinary Chemicals Code under the *Agricultural and Veterinary Chemicals Code Act 1994* (Cth),⁹⁴ the Minister for Health and Ageing for certain information supplied under the *Therapeutic Goods Act 1989* (Cth)⁹⁵ and the *Gene Technology Act 2000* (Cth),⁹⁶ the

⁸⁷ Letter, Department of Employment and Workplace Relations to the author, 26 September 2003; noting that IP Australia is within the portfolio responsibility of the Minister for Industry, Tourism and Resources: see *Administrative Arrangement Order* (18 December 2003) sch pt 13.

⁸⁸ Letter, Department of the Environment and Heritage to the author, 8 October 2003.

⁸⁹ Letter, Office of the Hon Nick Minchin to the author, 17 October 2003.

⁹⁰ Letter, Department of Family and Community Services to the author, 13 October 2003.

⁹¹ Letter, Office of Senator the Hon Robert Hill to the author, 30 September 2003.

⁹² See *Administrative Arrangement Order* (18 December 2003) sch pt 2; this concerns misleading and deceptive conduct under the *Trade Practices Act 1974* (Cth) ss 52 and 53.

⁹³ See *Administrative Arrangement Order* (18 December 2003) sch pt 13; this makes the Australian Olympic Committee to owner of various symbols, designs, mottos and images subject to copyright, design and trademark legislation: see *Olympic Insignia Protection Act 1987* (Cth) s 1A (simplified outline).

⁹⁴ See *Administrative Arrangement Order* (18 December 2003) sch pt 1; see *Agricultural and Veterinary Chemicals Code Act 1994* (Cth) s 4 (Code s 3)).

⁹⁵ See *Administrative Arrangement Order* (18 December 2003) sch pt 11; see *Therapeutic Goods Act 1989* (Cth) s 25A.

Minister for Environment and Heritage for access to genetic resources under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth),⁹⁷ and so on. Unfortunately, none of the formal responses addressed these intellectual property issues despite a number of Departments leading the international and domestic policy on these issues. For example the Department of Environment and Heritage is responsible for developing the intellectual property guidelines for complying with the access to genetic resources scheme under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth).⁹⁸ The formal response for the Department of Environment and Heritage *only* addressed copyright issues!⁹⁹

Further, the *Administrative Arrangement Order* sets out the matters relating to those Departments, and under these orders many of the matters relating to the Departments (administered by the Minister of State) include intellectual property considerations.¹⁰⁰ Unfortunately, these broader issues were only addressed in formal responses from the Minister for Education, Science and Training addressing the intellectual property issues associated with domestic funding arrangements and copyright associated with the education and training sectors,¹⁰¹ and the Department of Communications, Information Technology and the Art as copyright affects communications, information technology and the arts.¹⁰²

As a minimum each ministry and department might have been expected to have an interest in intellectual property¹⁰³ as part of its obligations under the *Financial*

⁹⁶ See *Administrative Arrangement Order* (18 December 2003) sch pt 11; for various licenses authorising specified dealings with one or more specified genetically modified organisms: *Gene Technology Act 2000* (Cth) s 185.

⁹⁷ See *Administrative Arrangement Order* (18 December 2003) sch pt 7.

⁹⁸ See *Administrative Arrangement Order* (18 December 2003) sch pt 7.

⁹⁹ Letter, Department of Environment and Heritage to the author, 8 October 2003.

¹⁰⁰ See *Administrative Arrangement Order* (18 December 2003) cls 1 and 2.

¹⁰¹ Letter, Office of the Minister for Education, Science and Training to the author, 2 December 2003.

¹⁰² Letter, Department of Communications, Information Technology and the Art to the author, 22 October 2003.

¹⁰³ The recent Auditor-General's report into the intellectual property practices of the Commonwealth provides further insights: see Auditor-General, *Intellectual Property Policies and Practices in Commonwealth Agencies*, Performance Audit Report No 25 (2004).

Management and Accountability Act 1997 (Cth) dealing with procurement,¹⁰⁴ fraud,¹⁰⁵ spending proposals,¹⁰⁶ the recovery of debts,¹⁰⁷ and future commitments of public money.¹⁰⁸ Some of these issues were addressed in the formal responses from the Minister for Education, Science and Training,¹⁰⁹ the Minister for Finance and Administration,¹¹⁰ the Department of Family and Community Services,¹¹¹ the Department of Immigration and Multicultural and Indigenous Affairs,¹¹² and the Department of Health and Ageing.¹¹³

While it is possible the formal responses reflected the particular knowledge and understanding of the letter writer rather than the actual ministry or departmental practice, the responses do suggest some confusion over the capacity of consultation to deliver a coherent policy in the disparate role of intellectual property in these various agreements negotiated by the Australian Government. Of particular concern was the response of the Minister for Agriculture, Fisheries and Forestry merely providing: ‘... as the responsibility for intellectual property issues lies with the Attorney-General ... I have forwarded your letter to his office for attention’.¹¹⁴ Given the growing role of intellectual property in various parts of agricultural policy (such as agricultural and veterinary chemicals, access to genetic resources, agricultural export trade, and so on), a very different response might have been expected. If the response is in fact correct, and properly reflects the Minister’s responsibilities, the role of the Department of Agriculture, Fisheries and Forestry in negotiating international agreements dealing with intellectual property issues should be reviewed.

¹⁰⁴ *Financial Management and Accountability Regulations 1997* (Cth) rr 7 and 8; Department of Finance and Administration, *Commonwealth Procurement Guidelines & Best Practice Guidance* (2002).

¹⁰⁵ *Financial Management and Accountability Regulations 1997* (Cth) rr 19 and 20; see also *Financial Management and Accountability Orders 1997* (Cth) oo 2.2.1-2.2.3.

¹⁰⁶ *Financial Management and Accountability Regulations 1997* (Cth) rr 9 and 13; noting that specific provisions apply to loan guarantees: *Financial Management and Accountability Regulations 1997* (Cth) r 14.

¹⁰⁷ *Financial Management and Accountability Act 1997* (Cth) s 47.

¹⁰⁸ *Financial Management and Accountability Regulations 1997* (Cth) rr 9, 10 and 13.

¹⁰⁹ Letter, Office of the Minister for Education, Science and Training to the author, 2 December 2003.

¹¹⁰ Letter, Office of the Hon Nick Minchin to the author, 17 October 2003.

¹¹¹ Letter, Department of Family and Community Services to the author, 13 October 2003.

¹¹² Letter, Department of Immigration and Multicultural and Indigenous Affairs to the author, 7 November 2003.

¹¹³ Letter, Department of Health and Ageing to the author, 3 December 2003.

¹¹⁴ Letter, Office of the Hon Warren Truss MP to the author, 24 December 2003.

Perhaps the most interesting response for the purposes of this submission was from the Parliamentary Secretary to the Minister for Industry, Tourism and Resources addressing patents, trademarks and designs.¹¹⁵ As a generalisation the Parliamentary Secretary asserted:

In the broadest sense, the development of the government's policy agenda involves a careful balance of competing needs to achieve the overall aim of ensuring the best interests of all Australians, and the nation as a whole, are served. With regard to intellectual property, this balance takes into consideration the views and impacts on intellectual property right owners, business and industry; the Australian public generally; the potential effects on innovation, investment and trade; our international obligations and the overall effect on the Australian economy.¹¹⁶

The Parliamentary Secretary appears to acknowledge that there is no comprehensive patent policy, with the Advisory Council on Intellectual Property providing advice on particular policy matters.¹¹⁷

The Parliamentary Secretary appears to place considerable weight on the IPCR Committee's review of intellectual property under the CPA:

The IPCRC identified and reviewed areas of serious concern for competition and they recommended changes to those aspects of the intellectual property laws that grant exclusive privileges not needed to encourage an efficient level of investment in creative effort. The report stands as a benchmark on which the government can assess the effects of competition of future proposed intellectual property policy initiatives.¹¹⁸

In respect of *Backing Australia's Ability* the Parliamentary Secretary says:

¹¹⁵ Letter, Parliamentary Secretary to the Minister for Industry, Tourism and Resources to the author, not dated.

¹¹⁶ Parliamentary Secretary's letter, above n 115.

¹¹⁷ Parliamentary Secretary's letter, above n 115.

¹¹⁸ Parliamentary Secretary's letter, above n 115.

The government's commitment to implementing its intellectual property rights policy agenda is reflected in the respective legislation which implements these rights and its programs which promote and support innovation, such as those outlined in the government's *Backing Australia's Ability* (BAA) statement. The BAA intellectual property initiatives are aimed at developing a robust intellectual property regime, facilitating easy access to information on protection and promoting research and development through helping to better capture returns from commercialising Australian ideas and products. These initiatives are developed by expert groups after lengthy debate, discussion and consultations prior to the BAA announcement.¹¹⁹

On the role of IP Australia and its involvement in international negotiations:

With regard to the activities of IP Australia, their role is to implement the government's policy agenda through the administration of the patent, trademark and design legislation and relevant intellectual property programs. In undertaking this role they consult regularly with relevant interest groups and stakeholders both within and outside government. They play a role in international fora only insofar as this reflects the government's stated policy objectives. This largely revolves around working with the World Intellectual Property Organisation to assist our regional neighbors develop an intellectual property administrative capacity and to harmonise intellectual property procedures worldwide to make for easier and speedier access for Australian businesses. IP Australia does not negotiate international agreements as such, however, it provides input to intellectual property aspects of treaty negotiations and agreements.¹²⁰

The significance this submission places on the responses to these questions is that:

- (a) The fount of policy for intellectual property in the Australian Government is poorly understood by various parts of government so one part of government with an intellectual property issue may not necessarily approach the correct part of government with appropriate policy knowledge about the issue in question. This may be of some concern where parts of the Australian Government are consulted about the likely impacts of intellectual property proposals on their core business activities and constituencies;

¹¹⁹ Parliamentary Secretary's letter, above n 115.

¹²⁰ Parliamentary Secretary's letter, above n 115.

- (b) There is no comprehensive Australian Government patent policy so that the final determination of a policy question will depend on the part of the Australian Government making the decision, and in respect of patents this may not be IP Australia (in the Department of Industry, Tourism and Resources) that has responsibility for dealing with patents;
- (c) The Australian Government considers the IPCR Committee's review of intellectual property legislation sets a 'benchmark' to assess future intellectual property initiatives; and
- (d) *Backing Australia's Ability*, the policy document, reflects innovation initiatives that are in addition to the existing legislative schemes that implement the Australian Government's intellectual property policy agenda. Further, the legislative schemes themselves reflect the Australian Government's intellectual property policy agenda.

The following Part 5 assess the assertion that the IPCR Committee's review of intellectual property legislation sets a 'benchmark' to assess future intellectual property initiatives and Part 6 assesses the 'flexibility' in TRIPs, especially after the Doha Ministerial Declaration. This assessment is significant as it challenges the conclusion that the IPCR Committee's review necessarily sets an appropriate 'benchmark' when it failed to consider key controversies in the patent arena. Further, the assessment of TRIPs 'flexibility' shows that a more nuanced patent policy is possible that enables Australia to tailor its patent laws (and competition laws) to suit its particular economic and social circumstances. This is important as Part 7 shows that the AUSFTA will likely limit TRIPs' 'flexibility' by failing to articulate the objects and principles of TRIPs.

5. COMPETITION POLICY IN AUSTRALIA

As a measure of the collective concern about the high social costs from restrictions on competition (together with the inefficiencies in the market from less than optimal allocation of resources), Australia has undertaken an extensive review of its regulations and government actions to remove anti-competitive arrangements that cannot be justified to achieve an identifiable 'public interest'.¹²¹ The following sections consider the key aspects of the developed NCP from its foundations in the *Independent Committee of Inquiry into Competition Policy in Australia* (Hilmer Committee) report and the CPA to the following legislative reviews required by the CPA and conducted by the NCC and the IPCR Committee. The IPCR Committee approach to patent privileges is then contrasted with its approach to parallel import restrictions under the *Copyrights Act 1968* (Cth).

5.1 Hilmer Committee and the CPA

The Hilmer Committee undertook a broad ranging policy review of the restrictions on competition in Australia and proposed a number of reforms directed to removing barriers to competition with the aim of benefiting consumers, promoting business competition, fostering innovation and making the Australian economy more flexible, thereby 'improving its capacity to respond to external shocks and changing market opportunities'.¹²² The Hilmer Committee report identified two aspects of intellectual property that required further review:

- (a) The exemption of certain conditions in licenses and assignments of intellectual property in the *Trade Practices Act* – here the Hilmer Committee report expressed some concern about the existing scheme of exemptions saying '[t]he Committee was not presented with any persuasive arguments as to why intellectual property

¹²¹ This process may be traced back to the establishment of a NCP following the Hilmer Committee report (Independent Committee of Inquiry into Competition Policy in Australia, *National Competition Policy* (1993) (Hilmer Committee)), the enactment of provisions following the Government response to the Hilmer Committee (*Competition Policy Reform Act 1995* (Cth)) and formal agreement of a NCP between the Commonwealth, States and Territories (see National Competition Council, *Compendium of National Competition Policy Agreements* (1997)); see Ministerial Statement, House of Representatives *Hansard*, 12 March 1991, 1761 (Prime Minister); details about the stewarding of the NCP agreement are reviewed in E Harman, 'The National Competition Policy: A Study of the Policy Process and Network' (1996) 31 *Australian Journal of Political Science* 205, 208-217.

rights should receive protection beyond that available under the authorization process [in the *Trade Practices Act*].¹²³ The Hilmer Committee ‘saw force’ in arguments suggesting the exemptions be reformed but concluded it was not placed to make ‘expert recommendations’ and suggested that the matter should be examined further to ‘assess whether the policy reflected by the exemption is appropriate’.¹²⁴ The NCC and IPCR Committee subsequently undertook the review of the exemption, and this is considered in the following sections; and

- (b) The regulatory restrictions on competition contained in statutes or subordinate legislation – here the Hilmer Committee report identified the ‘temporary monopolies’ given to protect intellectual property as a regulatory barrier to market entry.¹²⁵ The Hilmer Committee recommended that ‘[a] mechanism to promote reform of regulation that unjustifiably restricts competition form a central plank of a national competition policy’¹²⁶ and then recommended all Australian governments abide by a series of principles, including that:
- ‘[t]here should be no regulatory restrictions on competition unless clearly demonstrated to be in the public interest’;¹²⁷
 - ‘[p]roposals for new regulation that have the potential to restrict competition should include evidence that the competitive effects of the regulation have been considered; that the benefits of the proposed restriction outweigh the likely costs; and that the restriction is no more restrictive than necessary in the public interest’;¹²⁸ and
 - ‘[a]ll existing regulation that imposes a significant restriction on competition should be subject to regular review to determine’ that the restriction on competition is ‘clearly demonstrated’ to be in the ‘public interest’.¹²⁹

¹²² Hilmer Committee, above n 121, xvi.

¹²³ Hilmer Committee, above n 121, 150.

¹²⁴ Hilmer Committee, above n 121, 151.

¹²⁵ Hilmer Committee, above n 121, 195.

¹²⁶ Hilmer Committee, above n 121, 211.

¹²⁷ Hilmer Committee, above n 121, 212.

¹²⁸ Hilmer Committee, above n 121, 212.

Following the Hilmer Committee report, a number of measures were initiated to put the report's broader recommendations into effect.¹³⁰ These included amendments to the *Trade Practices Act* and *Prices Surveillance Act 1983 (Cth)*,¹³¹ three inter-governmental agreements (including the CPA), and related reforms to the electricity, gas, water and road transport industries.¹³² A significant part of the CPA was that governments around Australia review the anti-competitive effects of their existing legislation¹³³ and ensure those proposals for new legislation that restricts competition be consistent with the 'guiding principle':¹³⁴

... that legislation (including Acts, enactments, Ordinances or regulations) should not restrict competition unless it can be demonstrated¹³⁵ that:

- (a) the benefits of the restriction to the community as a whole outweigh the costs; and
- (b) the objectives of the legislation can only be achieved by restricting competition.¹³⁶

A timetable for reviewing legislation was agreed in 1996.¹³⁷ In compliance with the CPA, and the agreed timetable for reviewing legislation, the NCC¹³⁸ reviewed the exemption of

¹²⁹ Hilmer Committee, above n 121, 212.

¹³⁰ For a review of the key measures and operation of the National Competition Policy see R Deighton-Smith, 'National Competition Policy: Key Lessons for Policy-making from its Implementation' (2001) 60 *Australian Journal of Public Administration* 29.

¹³¹ See *Competition Policy Reform Act 1995 (Cth)*; see also the Second Reading, Competition Policy Reform Bill 1995, House of Representatives *Hansard*, 30 June 1995, 2793-2801 (Assistant Treasurer); corresponding legislative amendments were also to be introduced in the various States and territories.

¹³² See National Competition Council, *Compendium of National Competition Policy Agreements* (1997).

¹³³ *Competition Principles Agreement* cl 5(3).

¹³⁴ *Competition Principles Agreement* cl 5(5).

¹³⁵ The construction of the *Competition Principles Agreement* cl 5(1) relies on the term 'demonstrated' in setting out the standard to be achieved in applying the 'guiding principle' in reviewing existing legislation and proposed legislation that restricts competition, while the *Competition Principles Agreement*, cl 5(5) expressly requires 'evidence' that proposed legislation restricting competition is consistent with the 'guiding principle'. While this might be construed as a lower standard for reviewing existing legislation, the preferable construction is evidence demonstrating that the guiding principle has been satisfied. That is, 'legislation that restricts competition must be accompanied by evidence that the benefits of the restriction to the community as a whole outweigh the costs, and that the objectives can only be achieved by restricting competition': Productivity Commission, *Regulation and Its Review 2002-03*, Annual Report Series (2003) 7; see also National Competition Council, *National Competition Council Legislation Review Compendium* (2002) 1.

¹³⁶ *Competition Principles Agreement* cl 5(1).

¹³⁷ Council of Australian Governments, *Communiqué – 11 April 1995* (1995) 7; this timetable was extended to 30 June 2002 (Council of Australian Governments, *Communiqué – 3 November 2000* (2000) 5), and presumably has now been extended again: see Productivity Commission, *Regulation and Its Review 2002-03*, Annual Report Series (2003) 73-74 (outstanding reviews).

certain intellectual property dealings from the pro-competition provisions of the *Trade Practices Act*,¹³⁹ and the IPCR Committee¹⁴⁰ reviewed most Commonwealth intellectual property legislation, including the *Patents Act*.¹⁴¹ The approach to conducting and the content of these legislation reviews under the CPA is primarily addressed in the Terms of Reference, although there may be additional consideration,¹⁴² mandatory procedures¹⁴³ and guidance from other sources.¹⁴⁴ Essentially, the objectives in conducting the legislation reviews is to assess whether the arrangements restrict competition, whether the benefits to the community as a whole outweigh the costs (including the broader assessment of the 'public interest'), that it can clearly be demonstrated that the benefits exceed the costs and whether the same objectives can be achieved by other better means.¹⁴⁵ Further, the regulation in force should be both 'efficient', in terms of 'minimizing compliance and other costs imposed on the community'¹⁴⁶ and 'effective' in 'addressing an identified problem'.¹⁴⁷ The following sections review the approach and findings of the NCC (section 5.2) and IPCR Committee (section 5.3) in applying the CPA criteria. These approaches are then contrasted with the approach of the majority of the IPCR Committee to dealing with parallel import restrictions under the *Copyright Act 1968* (Cth) (section 5.4).

5.2 National Competition Council

The NCC's Terms of Reference provided, in part, that the NCC 'have regard to the analytical requirements for regulation assessment by all Australian governments set out

¹³⁸ National Competition Council, Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974 (1999) (NCC).

¹³⁹ NCC, above n 138, 148-246.

¹⁴⁰ IPCR Committee, above n 21.

¹⁴¹ IPCR Committee, above n 21, 134-178.

¹⁴² For example, *Competition Principles Agreement* cl 5(9) provides: 'Without limiting the terms of reference of a review, a review should: (a) clarify the objectives of the legislation; (b) identify the nature of the restriction on competition; (c) analyse the likely effect of the restriction on competition and on the economy generally; (d) assess and balance the costs and benefits of the restriction; and (e) consider alternative means for achieving the same result including non-legislative approaches'.

¹⁴³ See for example Office of Regulation Review, *A Guide to Regulation* (1998) that apply to 'Commonwealth departments, agencies, statutory authorities and boards making, reviewing and reforming regulation' (A1).

¹⁴⁴ See for example Centre for International Economics, *Guidelines for NCP Legislation Reviews* (1999).

¹⁴⁵ See Centre for International Economics, *Guidelines for NCP Legislation Reviews* (1999) 7.

¹⁴⁶ Productivity Commission, *Regulation and Its Review 2002-03*, Annual Report Series (2003) 1.

in the CPA'.¹⁴⁸ However, the NCC's task to review the exemption of certain intellectual property dealings from the pro-competition provisions of the *Trade Practices Act* was complicated by the nature of the legislative scheme. The *Trade Practices Act* imposes pro-competition regulation onto the conduct of firms,¹⁴⁹ which are then relaxed by specific exemptions.¹⁵⁰ The *Trade Practices Act* is expressly stated to apply to any rights exercised under the *Patents Act* (and some other intellectual property legislation),¹⁵¹ with an exception for certain license and assignment conditions 'relating to' the patent.¹⁵² The exemptions sanctioned relate to anti-competitive agreements,¹⁵³ exclusive dealings¹⁵⁴ and mergers,¹⁵⁵ but not to resale price maintenance¹⁵⁶ or misuse of market power.¹⁵⁷ The NCC addressed the issues by considering the exemptions from the *Trade Practices Act* to constitute restrictions on competition because they restricted the operation of the imposed pro-competition regulation.¹⁵⁸ Further, the NCC confined the scope of its review to be 'whether, and if so, how [the imposed pro-competition regulation] of the *Trade Practices Act* should regulate licensing and assignment of intellectual property rights'.¹⁵⁹ However, a significant limitation of the NCC's approach was based on its interpretation of the Terms of Reference to take account of existing intellectual property laws and 'assume that the [existing intellectual property laws] will continue to exist and provide a strong indication of the Government's preferred policy approach for the regulation [of intellectual property]'.¹⁶⁰ Having adopted this view, the NCC could only ever examine the existing legislative provisions without challenging the broader debates about the appropriateness of existing patent thresholds and the likely anti-competitive effects of different threshold standards under the *Trade Practices Act* scheme.

¹⁴⁷ Productivity Commission, *Regulation and Its Review 2002-03*, Annual Report Series (2003) 1.

¹⁴⁸ NCC, above n 138, vi.

¹⁴⁹ *Trade Practices Act* pt IV.

¹⁵⁰ *Trade Practices Act* s 51.

¹⁵¹ *Trade Practices Act* s 51(1); although the *Plant Breeder's Rights Act 1994* (Cth) is not currently included in this exemption arrangement.

¹⁵² *Trade Practices Act* s 51(3).

¹⁵³ *Trade Practices Act* ss 45 and 45A.

¹⁵⁴ *Trade Practices Act* s 47.

¹⁵⁵ *Trade Practices Act* ss 50 and 50A.

¹⁵⁶ *Trade Practices Act* s 48.

¹⁵⁷ *Trade Practices Act* s 46.

¹⁵⁸ NCC, above n 138, 3.

¹⁵⁹ NCC, above n 138, 3.

The NCC then accepted that general property rights and intellectual property rights share similar attributes¹⁶¹ so that they are ‘neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them’¹⁶² and similarly, the exercise of intellectual property rights did not inherently conflict with pro-competition laws necessarily requiring an exemption from competition law.¹⁶³ The NCC acknowledged that other jurisdictions do not provide any form of exemptions for restrictive conditions in licenses and assignments.¹⁶⁴ However, the NCC then ‘accepted’¹⁶⁵ that the existing exemption ‘has some continuing relevance in terms of providing businesses with greater certainty when engaging in licensing and assignment activity’¹⁶⁶ with the benefit that ‘[t]his greater certainty can help reduce the costs associated with compliance with trade practices law and encourage more licensing activity’.¹⁶⁷ This ‘acceptance’ carried through to the analyses of the benefits¹⁶⁸ and costs¹⁶⁹ of the exemption, and then to the conclusion.¹⁷⁰

Finally, the NCC considered the various options to retaining the benefits from the exemption while minimising the costs of anti-competitive conduct. The NCC concluded, against the criteria of reducing the potential for anti-competitive conduct, minimising uncertainty, minimising costs and practical implementation,¹⁷¹ that ‘the best option is to amend [the exemption] to remove price restrictions, quantity restrictions, and horizontal arrangements from the scope of the exemption’.¹⁷² In making this assessment the NCC considered the consequences of repealing the exemption, and accepted that there was no

¹⁶⁰ NCC, above n 138, 17.

¹⁶¹ NCC, above n 138, 149.

¹⁶² NCC, above n 138, 160; citing the United States Department of Justice and Federal Trade Commission, *Anti-trusts Guidelines for the Licensing of Intellectual Property* (1995) s 2.1.

¹⁶³ NCC, above n 138, 163.

¹⁶⁴ Most notably the United States: NCC, above n 138, 150 and 186-192.

¹⁶⁵ NCC, above n 138, 150.

¹⁶⁶ NCC, above n 138, 150 and 167; presumably this was confined to ‘clarifying whether licensing conditions which have the effect of subdividing intellectual property rights may be anti-competitive’ (167).

¹⁶⁷ NCC, above n 138, 150 and 167.

¹⁶⁸ NCC, above n 138, 193-200.

¹⁶⁹ NCC, above n 138, 201-213.

¹⁷⁰ NCC, above n 138, 213.

¹⁷¹ NCC, above n 138, 241.

international treaty obligation, such as TRIPs, on constraining how competition law might be applied to intellectual property.¹⁷³

Repealing [the exemption] would remove the potential that anti-competitive conduct could be exempted from the operation of the *Trade Practices Act*. However, the [NCC] accepts that repeal would impose some uncertainty and costs on parties in checking that their agreements do not breach [the pro-competition regulations in the *Trade Practices Act*], particularly in cases where it is difficult to assess the market potential of intellectual property rights or the boundaries of the markets in which the intellectual property rights might be commercialised at some future date. Guidelines may not be sufficient to fully alleviate this uncertainty, particularly in circumstances where investors need absolute certainty about the validity of licensing conditions before they may proceed to invest in research and development.¹⁷⁴

The NCC then recommended that the exemption be retained, 'but amended to remove protection from price and quantity restrictions and horizontal agreements'.¹⁷⁵ The NCC also recommended that guidelines be formulated to assist in determining when intellectual property licenses and assignments might be exempt from, or breach, the *Trade Practices Act*, and what breaching conduct might be authorised under the *Trade Practices Act*.¹⁷⁶

Although the NCC did undertake a process of identifying the benefits and costs of the exemption from competition,¹⁷⁷ the final conclusions were based on the NCC's 'acceptance'¹⁷⁸ and 'consideration'¹⁷⁹ that, subject to price and quantity restrictions and horizontal agreements, restricting competition by patent privileges was desirable. At best the benefits were merely 'greater business certainty',¹⁸⁰ while the costs in terms of anti-

¹⁷² NCC, above n 138, 241.

¹⁷³ NCC, above n 138, 227-230.

¹⁷⁴ NCC, above n 138, 242.

¹⁷⁵ NCC, above n 138, 243.

¹⁷⁶ NCC, above n 138, 245.

¹⁷⁷ NCC, above n 138, 193-213.

¹⁷⁸ See for example NCC, above n 138, 242.

¹⁷⁹ See for example NCC, above n 138, 200 and 213.

¹⁸⁰ NCC, above n 138, 200.

competitive conduct ranged across all conduct, but with most being confined to horizontal arrangements and vertical arrangements that facilitate horizontal agreements.¹⁸¹

Interestingly, the NCC posed significant counter arguments to those put to it that were not then addressed, including the residual uncertainty about the operation of the existing exemption,¹⁸² the absence of a similar exemption in other jurisdictions that does not appear to have harmed investment in research,¹⁸³ the minor factor favorable competition law treatment would be in any decisions about investing in innovation,¹⁸⁴ and the global nature of licensing intellectual property meaning that favorable treatment in one jurisdiction may not apply in another jurisdiction thus questioning the need for favorable treatment.¹⁸⁵ Each of these matters should have challenged the 'acceptance' and 'consideration' of benefit from excluding some intellectual property related conduct from the *Trade Practices Act*. Further, the NCC failed to consider that the *Trade Practices Act* is directed to limiting only some *per se* anti-competitive conduct (such as some horizontal anti-competitive arrangements),¹⁸⁶ and other conduct only when that conduct passes a threshold of anti-competitiveness (such as misuse of market power).¹⁸⁷ In these circumstances much of the anti-competitive conduct (both unilateral and multilateral)¹⁸⁸ exempted or up to the threshold set by the *Trade Practices Act* will be sanctioned, even where the costs to consumers may be significant. An example of such conduct is the ability of some patent holders (and their licensees and assignees) to license the patent protected products rather than sell them to avoid exhaustion (whether regional, national or international) of the patentee's 'exclusive rights', thus avoiding a competitive control

¹⁸¹ NCC, above n 138, 213.

¹⁸² NCC, above n 138, 196.

¹⁸³ NCC, above n 138, 196 and 200; although it was noted that in these circumstances the courts may take into account the 'special features' of intellectual property when assessing whether particular conduct is anti-competitive (186-187); for an analysis of the difference between the intended policy and its application by the courts in the United States, and likely application in Australia see Charles Lawson, 'Patenting Genes and Gene Sequences and Competition: Patenting the Expense of Competition' (2002) 30 *Federal Law Review* 97, 117-128.

¹⁸⁴ NCC, above n 138, 200.

¹⁸⁵ NCC, above n 138, 200.

¹⁸⁶ *Trade Practices Act* s 45.

¹⁸⁷ *Trade Practices Act* s 46.

¹⁸⁸ Noting that the NCC accepted that anti-competitive conduct ranged across all conduct: see NCC, above n 138, 213.

on prices. In these circumstances the higher prices to individual purchasers may be low, but across an economy such increased prices might be a considerable inefficiency.¹⁸⁹

Further, the NCC acknowledged that in some circumstances products protected by patents might not be substitutable (such as ‘a newly discovered vaccine for a formerly incurable disease’)¹⁹⁰ thereby creating a product market with significant potential to exercise market power.¹⁹¹ The only evidence that the NCC appeared to consider in this context were arguments that repealing the exemption would then require these patent holders to seek authorisation and at some considerable cost and disincentive to further innovation.¹⁹² Unfortunately, the NCC did not express any specific views about this evidence, although this appears to have been ‘accepted’ as a benefit to retaining the exemption in some form.¹⁹³ There was, however, no assessment of the problems of substitutability in high technology markets and the effects of the incidents of there being no substitutes in some industries (particularly in the pharmaceutical and biotechnology industries).¹⁹⁴

The Government is still considering its response to the NCC report,¹⁹⁵ although this has been overtaken by the IPCR Committee’s review of the NCC’s conclusions and recommendations.¹⁹⁶ This is considered, in part, in the next section.

¹⁸⁹ Inefficient regulation imposing substantial costs on consumers through cross-subsidies and reduced incentives for firms to innovate was a general concern to the Hilmer Committee: see Hilmer Committee, above n 121, 189.

¹⁹⁰ NCC, above n 138, 172.

¹⁹¹ Although, the NCC considered this was only likely in ‘some rare cases ... [where] ... certain technologies ... will have no or few close substitutes’: NCC, above n 138, 172; however, it is these cases where the anti-competitive effects of patents are most likely to be most pronounced.

¹⁹² NCC, above n 138, 225-227.

¹⁹³ NCC, above n 138, 230.

¹⁹⁴ This is an issue also addressed by the IPCR Committee, but again without resolution: see IPCR Committee, above n 21, 143.

¹⁹⁵ See National Competition Council, *National Competition Council Legislation Review Compendium* (2002) 31.

¹⁹⁶ IPCR Committee, above n 21, 202-215.

5.3 Intellectual Property and Competition Review Committee

Following on from the NCC's inquiry into the exemptions of intellectual property privileges from the *Trade Practices Act*, the IPCR Committee undertook a review of intellectual property legislation (excluding the *Plant Breeder's Rights Act 1994 (Cth)*),¹⁹⁷ as part of the requirements under the CPA to review legislation restricting competition. The Terms of Reference provided, in part, that the IPCR Committee 'shall have regard to: (a) the determination, in the CPA, that legislation which restricts competition should be retained only if the benefits to the community as a whole outweigh the costs, and if the objectives of the legislation can only be achieved by restricting competition'.¹⁹⁸ However, the Terms of Reference also included specific matters that the IPCR Committee 'shall inquire into and report ... on', including 'the objectives of, including the nature and magnitude of the problems sought to be addressed by ... the *Patents Act 1990*', 'the nature of the restrictions in the legislation on competition', 'the likely effect of those restrictions on competition', alternative means of achieving the same objectives, and the 'costs and benefits' and 'appropriateness, effectiveness and efficiency' of the legislation, restrictions on competition and alternatives.¹⁹⁹ These requirements are consistent with the CPA.²⁰⁰

The IPCR Committee set out its vision of the impact of intellectual property rights on competition, including patents:

... it is important to recognise that competition occurs in a number of dimensions. More specifically, firms do not only compete in the prices they set but also in their ability to develop new processes and to design and market new products. This dynamic competition is of special importance. In effect, rather than simply reallocating existing resources, it expands the resources on which society can draw and allows for sustainable increases in living standards. It is also important because in practice it is the main way established market positions are over-turned, and the threat of competition made into an

¹⁹⁷ The reasons for excluding this legislative scheme from the review are uncertain.

¹⁹⁸ IPCR Committee, above n 21, 217.

¹⁹⁹ IPCR Committee, above n 21, 217.

²⁰⁰ *Competition Principles Agreement* cl 5(9).

ever-present constraint on the conduct of firms. An effective system to define and enforce intellectual property rights is critical for this type of dynamic competition to occur on a material scale.²⁰¹

Importantly, the IPCR Committee expressed its view that the interaction between intellectual property and competition was 'largely complementary' with intellectual property promoting innovation and competition policy 'keeping markets open and effective, preserves the primary source of the pressure to innovate and to diffuse innovations'.²⁰² However, recognising that intellectual property rights do have social costs, the IPCR Committee conceded:

Intellectual property laws must ... involve some balance between the incentives to invest in creative effort and the incentives for disseminating material that is the subject of intellectual property protection. This balance turns on determining the appropriate scope of protection, in terms of the conditions under which protection is granted, the scope and effectiveness of the exclusive privileges provided by protection, and the duration of the protection given. Balancing between providing incentives to invest in innovation on one hand, and for efficient diffusion of innovation on the other, is a central, and perhaps the crucial, element in the design of intellectual property laws. In the Committee's view, it is essential that the terms of this balance be clearly set out in the intellectual property laws themselves, so that rights owners and users can be certain about the scope and content of the grants being made.²⁰³

In addressing patents specifically, the IPCR Committee rejected the notion that Australia might apply a higher threshold standard to non-resident patent applicants,²⁰⁴ and presented a particular perspective on the benefits of patents in Australia:²⁰⁵

... effective patent protection facilitates trade in technology, both domestically and internationally. An effective patent system, accessible to foreign technology suppliers, allows Australian firms to import technology that would otherwise be unavailable, or would only be available at higher cost. This

²⁰¹ IPCR Committee, above n 21, 5.

²⁰² IPCR Committee, above n 21, 6.

²⁰³ IPCR Committee, above n 21, 6.

²⁰⁴ IPCR Committee, above n 21, 139.

²⁰⁵ See for example the dissenting opinion in Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (1984); for a recent overview of the competing theories about optimal division and scope of patents see Dan Burk and Mark Lemley, 'Policy Levers in Patent Law' (2003) 89 *Virginia Law Review* 1575, 1595-1631 and the references therein.

increases productivity and enhances competition in the Australian economy. The importance of technological imports is illustrated by the more than 90 per cent of patents registered in Australia, which are owned by foreigners. In addition, there are more indirect cross-border spillovers through importing of goods which embody innovations and which may be used as intermediate inputs or sold directly to end-users.²⁰⁶

The IPCR Committee did, however, present some assertions in support of its perspective about the benefits of patent privileges. It argued that the private value of research and development was much less than the social value,²⁰⁷ and that patent privileges was the best system yet devised to balance the trade-off between maintaining incentives to invest and fostering the diffusion of new technology.²⁰⁸ Unfortunately these assertions, while not contentious as a generalisation, gloss over a hotly contested and disparate debate about the appropriate scope and allocation of patent privileges that the IPCR Committee itself had identified in discussing balancing incentives and exploiting intellectual property generally²⁰⁹ and cited as ‘imperfections’ in the patent privilege scheme.²¹⁰ Further, the IPCR Committee’s analysis and conclusions were not based on Australia’s experience with patent privileges, but rather relied on international comparisons that were then assumed to be applicable to Australia.²¹¹ The IPCR Committee then concluded that patent privileges can lead to ‘losses in allocative and productive efficiency’ but ‘[i]n practice ... a patent holder can rarely act as a pure monopoly, because of the availability of alternative and substitute products and processes, and also because some scope for imitation almost always exists’.²¹² The loss of some ‘dynamic efficiency’ in the development of derivative innovations was also acknowledged, but again, ‘[t]o some extent dynamic losses are counteracted by the disclosure of ideas as part of the *quid pro*

²⁰⁶ IPCR Committee, above n 21, 139.

²⁰⁷ IPCR Committee, above n 21, 137.

²⁰⁸ IPCR Committee, above n 21, 143.

²⁰⁹ See IPCR Committee, above n 21, 6.

²¹⁰ See IPCR Committee, above n 21, 143.

²¹¹ Such assumptions are certainly open to question, especially where a state is a net technology importer like Australia: see for example Keith Maskus, *Intellectual Property Rights in a Global Economy* (2000) 237-238.

²¹² IPCR Committee, above n 21, 138.

quo of granting a patent and that the patent system itself ... facilitates the use of licensing'.²¹³ The IPCR Committee then reached an 'overall' conclusion:

Overall, the Committee agrees with Scherer that 'the patenting system is recognised to be an imperfect instrument. Nevertheless, it may be the best solution policy man can devise to the difficult trade-off between, on the one hand, maintaining incentives for investment and, on the other hand, fostering the diffusion of new technology's benefits to consumers and to those who might make leapfrogging inventions'.²¹⁴

Having adopted the view that compliance with international patent standards was beneficial to Australia²¹⁵ and a part of Government policy,²¹⁶ and its gloss on the debates about appropriate patent scope and allocation, then it was open to the IPCR Committee to accept the existing legislated scheme for patent privileges. The flaw in this approach, albeit an approach that was open to the IPCR Committee according to its Terms of Reference, was to avoid any analysis of the controversy about the most appropriate threshold requirements in the *Patents Act*. For example, different theories about the objectives of patent privileges propose very different threshold standards depending on what the patent scheme is intended to achieve, with the IPCR Committee failing both to clearly identify what patent privileges in Australia are intended to achieve²¹⁷ and consider the most appropriate test of non-obviousness in achieving this objective.²¹⁸ Comparing the 'reward theory' and the 'prospect theory' illustrate this contention. The 'reward theory' views a patent as an incentive to undertake uncertain invention with an opportunity to appropriate greater commercial returns thus fostering socially beneficial inventions, but with significant social costs on short term inefficiencies in the market from the anti-

²¹³ IPCR Committee, above n 21, 139.

²¹⁴ IPCR Committee, above n 21, 143.

²¹⁵ IPCR Committee, above n 21, 27 and 139-141.

²¹⁶ The Terms of Reference required the IPCR Committee's deliberation to 'have regard to ... the intentions and policies of the Government': IPCR Committee, above n 21, 216-217.

²¹⁷ See IPCR Committee, above n 21, 136-138; the IPCR Committee variously considering patent privileges seek to stimulate invention and innovation, increase the public availability of information about new technology, encourage entrepreneurs, promote investment or address free-riding on investment in intellectual effort.

²¹⁸ See IPCR Committee, above n 21, 154-156; the IPCR Committee considered the prior art limb of the inventive step threshold but failed to consider the non-obviousness limb and how the standard might be applied to exclude inventions that result merely from the application of labour and resources.

competitive effects of the patent (primarily restricted output and higher prices) appropriating public goods (ideas) that would otherwise be used.²¹⁹ In contrast, the ‘prospect theory’ views patents as promoting the commercial development of inventions with patents granted to early stage inventions facilitating the bringing of a usable invention to the market and acting as an incentive to maximise the commercial value from exploiting the invention with relief from free-riders.²²⁰ These different theories pose significantly different consequences for short term competition, the ‘reward theory’ imposing high thresholds for patentability seeking to limit patents to only those inventions that would not have been made with significant concerns about the effects on competition, while the ‘prospect theory’ imposes lower thresholds giving the patent holder control over the development process and possibly increasing the efficiency of development (that otherwise may not occur) with less concern about the effects on competition.

With these limitations already imposed the IPCR Committee then examined elements of the *Patents Act* and identified a number of improvements that might promote more competition in the application of the threshold tests and the duration of the patent term.²²¹ However, these issues were examined from the IPCR Committee’s particular concern about the economic effects of the certainty of the patent grant,²²² both granting patents that should not be granted and not granting patents that should be granted.²²³ From this perspective the IPCR Committee considered threshold test improvements including requiring a specific, substantial and credible use be defined²²⁴ and that the scope of prior art be expanded for assessing inventive step.²²⁵ It was suggested that other requirements

²¹⁹ There is an extensive literature about this theory; see for example the Subcommittee on Patents, Trademarks and Copyrights of the Senate Committee on the Judiciary, *An Economic Review of the Patent System*, 85th Congress, 2nd Session (1958) (also known as the Machlup Report).

²²⁰ There is an extensive literature about this theory; see for example its recent articulation in E Kitch, ‘The Nature and Function of the Patent System’ (1977) 20 *Journal of Law and Economics* 265 and its later articulation in R Merges, ‘Uncertainty and the Standard of Patentability’ (1992) 7 *High Technology Law Journal* 1.

²²¹ IPCR Committee, above n 21, 144.

²²² IPCR Committee, above n 21, 143-144.

²²³ See IPCR Committee, above n 21, 153.

²²⁴ IPCR Committee, above n 21, 151-154.

²²⁵ IPCR Committee, above n 21, 154-156 and 168-170.

be restricted including prior use²²⁶ and compulsory licensing.²²⁷ On patent term, the IPCR Committee 'believed' there was not enough evidence to extend the patent term,²²⁸ although it did suggest that raising renewal fees might be applied to 'extract a lower economic rent'.²²⁹ While these assessments and recommendations certainly affect competition, the IPCR Committee approach avoided assessing the details about the appropriate balance of how the threshold requirements might be applied and countered when the social costs were judged to be too high (such as the appropriate threshold of public interest before a compulsory license was to be granted).

A further flaw in the IPCR Committee's approach was accepting that 'Australia was complying with most of the current requirements of TRIPs before they were adopted and so only relatively minor adjustments to the *Patents Act* were required to make it TRIPs-compliant'²³⁰ as establishing that the existing *Patents Act* set the threshold for compliance with TRIPs, when in fact, many of the *Patents Act* provisions apply standards higher than TRIPs requires,²³¹ TRIPs leaves open the applicable standard of the patent threshold requirements,²³² and TRIPs 'flexibility' allows considerable scope to develop more appropriate laws to Australia's particular economic and technological needs. This flaw was particularly apparent in the IPCR Committee's failure to consider the expressly allowed exemptions under TRIPs and their likely effects on competition.

The IPCR Committee then examined the NCC's report about the exemption of certain patent license and assignment conditions under the *Trade Practices Act*.²³³ The Terms of

²²⁶ IPCR Committee, above n 21, 157-159.

²²⁷ IPCR Committee, above n 21, 162-163.

²²⁸ Interestingly, the IPCR Committee did not consider the patent term extension provisions and their likely effect on competition: see *Patents Act* ss 70-79A.

²²⁹ IPCR Committee, above n 21, 144 and 156; although it is not clear whether the IPCR Committee considered this only shortened the term for less innovative patents or also lowered the social costs by recouping the costs of administering the scheme.

²³⁰ IPCR Committee, above n 21, 141.

²³¹ For example, Australia applies a higher standard to the granting of compulsory licenses than TRIPs requires: compare *Patents Act* ss 133-135 and *Agreement on Trade Related Aspects of Intellectual Property Rights* Art 31.

²³² Dianne Nicol and Jane Nielsen, 'The Australian Medical Biotechnology Industry and Access to Intellectual Property: Issues for Patent Law Development' (2001) 23 *Sydney Law Review* 347, 363-364.

²³³ IPCR Committee, above n 21, 202-215.

Reference *only* required the IPCR Committee to ‘have regard to ... the conclusions and recommendations’ of the NCC’s report.²³⁴ In addressing the Terms of Reference the IPCR Committee carefully confined its comments to the existing legislative scheme ‘considering the effects that (given the [*Trade Practices Act*] as it stands) would flow from different approaches to the coverage by the Act of conduct relating to the exercise of IP rights’.²³⁵ With these riders in place the IPCR Committee recommended that the *Trade Practices Act* should be amended applying a test of whether the exempt conditions in licenses and assignments substantially lessened competition as applied in other parts of that *Trade Practices Act*.²³⁶ The IPCR Committee also recommended that the Australian Competition and Consumer Commission issue guidelines to clarify the types of conduct that are likely to breach the modified provision.²³⁷ This was significant as the IPCR Committee considered that the *Trade Practices Act* ‘should come into play when intellectual property rights are used in ways that go beyond the scope of the right being granted’.²³⁸ Without addressing the appropriateness of patent scope and allocation the likely pro-competitive and anti-competitive consequences of exemptions from the *Trade Practices Act* remain uncertain.

The IPCR Committee also accepted that exercising the patent privileges that is less than ‘going beyond market power’ is an acceptable restriction on competition:²³⁹

... the system of IP rights acts to provide to those who invest in creative effort a claim on the differential efficiency associated with the results of their investment – that is, of the social gain consequent on that investment’s outcomes. Those rights should not be used to secure a gain that goes beyond that differential efficiency through the exercise of market power. Thus, it is an inherent element in the IP right that the owner of a patent on an invention can secure an income dependent on the unique efficiency that invention allows; but it ought not to be acceptable for the owner of that patent to, say through the formation of a patent pool with owners of competing patents, effect a horizontal cartel, raise prices and secure monopoly rents. The grant of IP rights seeks to provide for

²³⁴ IPCR Committee, above n 21, 217.

²³⁵ IPCR Committee, above n 21, 210.

²³⁶ IPCR Committee, above n 21, 11 and 215; this would include a refusal to deal (213).

²³⁷ IPCR Committee, above n 21, 11 and 215.

²³⁸ IPCR Committee, above n 21, 24.

²³⁹ IPCR Committee, above n 21, 211.

creators a return on their investment in creation – the rights should not be used to secure returns that do not come from the social contribution that creation makes.²⁴⁰

Unfortunately, this again fails to assess that the restriction on competition from a patent privileges before there is actually a substantially lessening of competition is justifiable. With respect, the IPCR Committee's view that a restriction on competition only becomes a subject of concern when some anti-competitive threshold is reached is not the policy justification of the CPA, or the Hilmer Committee report.²⁴¹ The CPA is concerned with *any* restriction on competition, appreciating that even minor restrictions on competition, such as unnecessary regulation, imposes inefficiencies that should be removed unless they can be justified according to the CPA's criteria. The IPCR Committee should have, at the very least, identified the theoretical justifications for its conclusions and based them in the context of the Australian community.

However, the criticism of the IPCR Committee's dealing with patent privileges under the *Trade Practices Act* must be tempered by the uncertain Terms of Reference and the significant burden that the existing *Trade Practices Act* pt IV, as the IPCR Committee itself noted,²⁴² was fashioned in a different economic era and probably should be subjected to its own independent review whereupon the place of patent privileges might be more certainly addressed. Despite this reservation, the approach of the IPCR Committee in having failed to address the broader debates about the appropriateness of the existing thresholds was that it was then in no position to assess the likely anti-competitive effects of different threshold standards under the *Trade Practices Act* scheme.

²⁴⁰ IPCR Committee, above n 21, 211.

²⁴¹ The Hilmer Committee was quite explicit: 'there should be no regulatory restriction on competition unless clearly demonstrated to be in the public interest': Hilmer Committee, above n 121, 190; thus here the issue for the IPCR Committee to address should arguably have been how much incentive is sufficient to promote invention in Australia, and once that had been justified (or at least setting out the IPCR Committee's favoured theoretical perspective), then whether any kind of exemption from the *Trade Practices Act* would upset this incentive.

²⁴² See IPCR Committee, above n 21, 209-210.

The following section highlights the flawed approach of the IPCR Committee in assessing patent privileges by examining the IPCR Committee's approach to assessing the anti-competitive effects of the parallel import restrictions under the *Copyright Act 1968* (Cth). The significance of this assessment is to show that it was open to the IPCR Committee to challenge and analyze the details of patent privileges, such as the debates about appropriate patent scope and allocation.

5.4 Parallel import restrictions in the *Copyright Act 1968* (Cth)

The IPCR Committee's majority's assessment of parallel importing under the *Copyright Act 1968* (Cth)²⁴³ objected to many of the very same issues that were glossed over in its analyses of the *Patents Act*,²⁴⁴ and yet, it was able to structure its analysis of the issues very differently and reach a very different conclusion suggesting that the benefits of parallel import restrictions did not outweigh the detrimental anti-competitive effects and that the restrictions should be repealed entirely.²⁴⁵

The IPCR Committee's majority accepted that copyright had a 'utilitarian justification of protecting and promoting investment in creative effort to secure, for the Australian community, gains associated with investment'²⁴⁶ so that the privileges granted needed to be 'assessed in terms of whether the benefits they may bring, in improved investment in, and access to the results of, creative efforts, outweigh the costs they impose'.²⁴⁷ Further, '[t]his assessment of the impact of the restrictions needs to include analysis of the wider costs and benefits associated with those impacts'.²⁴⁸ The majority's key concern about parallel import restrictions appeared to be market segmentation with the ability to then charge higher prices (and possibly restrict availability) for copyrighted materials.²⁴⁹ In effect, this was an assessment about international exhaustion of copyright.

²⁴³ Noting the parallel import restrictions in the *Copyright Act 1968* (Cth) on sound recordings, books and non-copyright products were already relaxed: see *Copyright Amendment Act (No 1) 1998* (Cth); *Copyright Amendment Act (No 2) 1998* (Cth).

²⁴⁴ IPCR Committee, above n 21, 134-178.

²⁴⁵ IPCR Committee, above n 21, 5.

²⁴⁶ IPCR Committee, above n 21, 61.

²⁴⁷ IPCR Committee, above n 21, 62.

²⁴⁸ IPCR Committee, above n 21, 62.

²⁴⁹ IPCR Committee, above n 21, 62.

From this basis the majority was able to reject arguments about economic incentives to create,²⁵⁰ prices and availability,²⁵¹ remainder books,²⁵² marketing and services,²⁵³ censorship,²⁵⁴ piracy,²⁵⁵ and economic analysis that favored maintaining the existing restrictions,²⁵⁶ as failing to satisfy the CPA criteria.²⁵⁷ The most significant difference between the majority's dealing with parallel imports and patent privileges was the detailed approach to addressing the analysis of whether a restriction on competition was justified:

The Committee started from the premise that restrictions on competition need to be justified. In other words, the Committee, consistent with the NCP and the CPA, accepts that the onus of making a case lies with those who would prevent, limit, or in other ways restrict, competitive forces from operating.

More specifically, we accept that those who would restrict competition should establish the restrictions are in the public interest, rather than merely serving the interests of particular producers. The Committee believes that this well-established principle – requiring those who would restrict competition to demonstrate the need to do so – appears to be fully justifiable.

However, experience and analysis amply demonstrate the importance of competition in promoting efficiency and underpinning prosperous, open economies. It also demonstrates the frequency with which restrictions on competition, though claimed to serve wider interests, have been used to confer above normal profits on narrow groups at the expense of the community. A presumption, albeit a rebuttable one, in favour of competition, is consequently clearly reasonable.

Such a presumption also places the evidentiary burden on those best placed to demonstrate the position. The reality is that the benefits from restrictions on competition generally accrue to concentrated groups, while the costs of these restrictions are spread widely throughout the community. Given this spreading of costs, it is far more difficult for those adversely affected by restrictions to

²⁵⁰ IPCR Committee, above n 21, 49-51 and 66-69.

²⁵¹ IPCR Committee, above n 21, 51-53 and 64-69.

²⁵² IPCR Committee, above n 21, 54-55 and 64.

²⁵³ IPCR Committee, above n 21, 55-56 and 66-69.

²⁵⁴ IPCR Committee, above n 21, 56-57.

²⁵⁵ IPCR Committee, above n 21, 57-60.

²⁵⁶ IPCR Committee, above n 21, 65.

²⁵⁷ IPCR Committee, above n 21, 73.

organise themselves and present their case, than it is for the direct beneficiaries to support the restrictions.

As a result, the Committee believes that it is reasonable to expect those who would introduce or perpetuate restrictions to provide convincing evidence of why the restrictions are in the public interest.

It follows that the relevant test is whether the material made available to the Committee establishes that the restrictions these provisions impose on competition confer benefits on the community that outweigh their costs.

In cases where arguments put to us appear weak, the Committee actively sought further information and tried to analyse the arguments in the best light. As a result, we are convinced that we have provided the differing points of view with a fair and thorough hearing.²⁵⁸

The different approach of the IPCR Committee's majority in directly addressing the arguments about theoretical benefits of particular policy settings for the parallel importing and the absence of this analysis for patent privileges is perplexing and unexplained, most significantly, as the majority questioned the assumptions and assertions of benefit that copyright privileges under the *Copyright Act 1968* (Cth) were protecting and promoting investment. Had the IPCR Committee applied a similar critical analysis of patent privileges then the debates about appropriate patent scope and allocation and the potential of TRIPs would probably have been more closely examined and the requirements of the CPA more properly addressed. Further, broader issues such as the high costs of patented pharmaceuticals, non-tariff trade barriers, ethical considerations about patenting life, and so on, would probably have required consideration in more broadly assessing the public interest. With respect, this approach appears to more closely fit with the CPA and the principle articulated in the Hilmer Committee report. Further, such an analysis of patent privileges is more likely to deliver some insight into the various consequences of patent privileges and their likely benefits for the Australian community.

²⁵⁸ IPCR Committee, above n 21, 61.

With parallels to the IPCR Committee's approach to patent privileges, the IPCR Committee's minority view accepted the assumptions and assertions of benefit and therefore justified parallel import restrictions in the *Copyright Act 1968* (Cth):

It is true that the ability to restrict parallel imports gives rise to an economic rent in favor of the copyright owner. However this rent encourages innovation and investment, and is precisely the foundation on which copyright is based. Allowing parallel imports reduces the incentives to innovate or invest. It is submitted that the costs incurred in removing the restriction will exceed the costs (in economic terms) of retaining that power.²⁵⁹

The consequence of the minority accepting this approach, and this was certainly open to the IPCR Committee, was to avoid the broader assessment of the anti-competitive effects of copyright and a proper assessment of the criteria set out in the CPA. These are the very same flaws in the IPCR Committee's assessment of the *Patents Act* and the relevant parts of the *Trade Practices Act*.

The conclusion from this assessment is that the underlying perspectives accepted by the NCC and the IPCR Committee should have been challenged and the evidence (and reasoning) supporting their conclusions that restrictions on competition were justified transparently identified. The following part explores some of this 'flexibility' in TRIPs aparent.

²⁵⁹ IPCR Committee, above n 21, 74.

6. PATENTS AND TRIPS

This submission contends that TRIPs is an evolving agreement and that there is likely to be considerable 'flexibility' within the current agreement to craft domestic laws to suit the particular needs of member states. For Australia this is an opportunity to develop and apply patent laws (and competition laws) in a way that promotes Australia's particular and different economic and technological interests. The following analysis of various TRIPs provisions illustrates this contention and suggests that Australia should be careful to exploit this considerable 'flexibility' to tailor its patent laws (and competition laws) to suit its particular economic and social circumstances. This is particularly important to take into consideration now as most of these developments have taken on new impetus following the TRIPs Ministerial Council statement at the Doha meeting.²⁶⁰

6.1 Objectives and principles – Art 7 and 8(1)

TRIPs sought to establish new rules and disciplines moving intellectual property into the realm of international trade laws:

... to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.²⁶¹

The 'effective and adequate' patent standards recognise the underlying public policy objectives and principles of TRIPs:

- (a) Objective – 'The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of

²⁶⁰ See Ministerial Conference, *Declaration on the Trips Agreement and Public Health* (2001) T/MIN(01)/DEC/2; Council of Trade-Related Aspects of Intellectual Property Rights, *Special Discussion on Intellectual Property and Access to Medicines* (2001) IP/C/M/31.

²⁶¹ TRIPs Preamble

technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations',²⁶² and

- (b) Principle – 'Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement'.²⁶³

The WTO member states have not yet reached a consensus on the effect of these provisions or the interpretation and implementation of TRIPs' obligations. As a generalisation, developed states consider patents are a necessary incentive to promote investment in new inventions and, as a consequence, this promotes the objectives and principles of Arts 7 and 8.²⁶⁴ In contrast, developing and least developed states²⁶⁵ consider each provision of TRIPs should be read in light of these objectives and principles and that TRIPs co-exists with other public policy objectives so that its provisions may be overridden to meet these other policy objectives.²⁶⁶ Despite these different perspectives, most member states consider TRIPs is sufficiently 'flexible' to enable member states to implement their TRIPs obligations as well as their public policy objectives. Thus, the majority consensus now appears to be:

... we remain committed to [the] implementation of the TRIPs Agreement based on its proper and flexible interpretation and in accordance with the objectives and principles contained in Arts 7 and 8 ...

²⁶² TRIPs Art 7.

²⁶³ TRIPs Art 8(1).

²⁶⁴ See for example Council of Trade-Related Aspects of Intellectual Property Rights, *Special Discussion on Intellectual Property and Access to Medicines* (2001) IP/C/M/31, 36; Council for Trade-Related Aspects of Intellectual Property Rights, *Communication from the European Communities and their Member States* (2001) IP/C/W/280, 2.

²⁶⁵ The distinction between developed, developing and least developed are set out in TRIPs, Arts 65 and 66 and deal with the time delay in implementing TRIPs obligations and assistance in technology transfer.

²⁶⁶ See for example Council of Trade-Related Aspects of Intellectual Property Rights, *Special Discussion on Intellectual Property and Access to Medicines* (2001) IP/C/M/31, 4; Council for Trade-Related Aspects of Intellectual Property Rights, *Submission by the African Group, Barbados, Bolivia, Brazil, Cuba, Dominican Republic, Ecuador, Honduras, India, Indonesia, Jamaica, Pakistan, Paraguay, Philippines, Peru, Sri Lanka, Thailand and Venezuela* (2001) IP/C/W/296, 5-6.

Some provisions of the TRIPs Agreement may elicit different interpretations. This 'room to manoeuvre' served the purpose of accommodating different positions held by members at the time of negotiation of the Agreement. We strongly believe that nothing in the TRIPs Agreement reduces the range of options available to governments to promote and protect public health, as well as other overarching public policy objectives.²⁶⁷

This view is consistent with the dispute settlement scheme Panel decision in *Canada – Patent Protection of Pharmaceutical Products*.²⁶⁸ There the European Union, in opposition, argued the phrase in Art 8(1), 'provided that such measures are consistent with the provisions of this [TRIPs] Agreement' meant that any other considerations beyond the patent holders rights were subordinate to the protection of the minimum intellectual property rights guaranteed by TRIPs.²⁶⁹ The Panel rejected the European Union argument and accepted adjustments to a patent holder's rights were contemplated according to the objectives and principles of Arts 7 and 8(1) (and other relevant provisions of TRIPs).²⁷⁰ However, the Panel expressed the view that these provisions were to be 'borne in mind' and a re-negotiation of the balance of TRIPs was not appropriate.²⁷¹ This approach has now been confirmed in the *Declaration on the TRIPs Agreement and Public Health* (the Declaration)²⁷² in response to member states 'taking measures to protect public health':

... while maintaining our commitments in the TRIPs Agreement, we recognize that these flexibilities include: (a) In applying the customary rules of interpretation of public international law, each provision of the TRIPs Agreement shall be read in the light of the object and purpose of the Agreement as expressed, in particular, in its objectives and principles.²⁷³

²⁶⁷ Council for Trade-Related Aspects of Intellectual Property Rights, *Submission by the African Group, Barbados, Bolivia, Brazil, Cuba, Dominican Republic, Ecuador, Honduras, India, Indonesia, Jamaica, Pakistan, Paraguay, Philippines, Peru, Sri Lanka, Thailand and Venezuela* (2001) IP/C/W/296, 3.

²⁶⁸ (2000) WT/DS114/R.

²⁶⁹ (2000) WT/DS114/R, 50.

²⁷⁰ (2000) WT/DS114/R, 154.

²⁷¹ (2000) WT/DS114/R, 154.

²⁷² Ministerial Conference, *Declaration on the Trips Agreement and Public Health* (2001) T/MIN(01)/DEC/2.

²⁷³ Ministerial Conference, *Declaration on the Trips Agreement and Public Health* (2001) T/MIN(01)/DEC/2, 1.

It remains to be seen how broadly these provisions apply and the limitations that may be imposed. Although, it is certainly clear after the Declaration that some member states consider these provisions 'flexible' enough to allow 'exclusive rights' to be curtailed to make pharmaceutical products protected by patents accessible in cases of epidemics.²⁷⁴

For example, some developing and least develop states have asserted:

The objective of the promotion of technological innovation and the transfer and dissemination of technology places the protection and enforcement of [intellectual property rights] in the context of the interests of society. Such an objective is essential for the promotion of health policies, as it encourages the development of domestic production of pharmaceutical products ... Where the patent holder fails to meet the objectives of the TRIPs Agreement and of public health policies, however, Members may take measures to ensure transfer and dissemination of technology to provide better access to pharmaceuticals.²⁷⁵

Arguably, according to this approach, Art 8(1) principles will be interpreted according to the Art 7 objectives, so that measures may be consistent with TRIPs if they are implemented to meet the broadly stated Art 7 objectives. If this is correct then there is considerable 'flexibility' in TRIPs for Australia and other member states to interpret TRIPs and develop and apply laws that promote Australia's particular interests, including interests that might be unrelated to patenting.

6.2 Prior intellectual property conventions – Art 2(1)

TRIPs expressly provides, in Art 2(1), that member states shall, in respect of Parts II (standards concerning the availability, scope and use of intellectual property rights), III (enforcement of intellectual property rights) and IV (acquisition and maintenance of intellectual property rights and related *inter-partes* procedures) of TRIPs, 'comply' with Arts 1 to 12 and 19 of the Stockholm Act of the *Paris Convention for the Protection of*

²⁷⁴ Council for Trade-Related Aspects of Intellectual Property Rights, *Submission by the African Group, Barbados, Bolivia, Brazil, Cuba, Dominican Republic, Ecuador, Honduras, India, Indonesia, Jamaica, Pakistan, Paraguay, Philippines, Peru, Sri Lanka, Thailand and Venezuela* (2001) IP/C/W/296, 5-6.

²⁷⁵ Council for Trade-Related Aspects of Intellectual Property Rights, *Submission by the African Group, Barbados, Bolivia, Brazil, Cuba, Dominican Republic, Ecuador, Honduras, India, Indonesia, Jamaica, Pakistan, Paraguay, Philippines, Peru, Sri Lanka, Thailand and Venezuela* (2001) IP/C/W/296, 6.

Industrial Property (Paris Convention 1967).²⁷⁶ This may extend the scope of TRIPs to incorporate parts of the Paris Convention 1967. The relevant parts of the Paris Convention 1967 provide:

- (a) Compulsory licensing and forfeiture – ‘Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work’,²⁷⁷ and ‘[f]orfeiture of the patent shall not be provided for except in cases where the grant of compulsory licenses would not have been sufficient to prevent the said abuses’.²⁷⁸ The only limits set out in the Convention is that compulsory licenses for ‘failure to work’ or ‘insufficient working’ can not be made *before* either ‘four years from the date of filing of the patent application’ or ‘three years from the date of the grant of the patent’, or if the ‘patentee justifies his inaction by legitimate reasons’.²⁷⁹ Further, if a compulsory license is granted, then it must be non-exclusive and ‘shall not be transferable, even in the form of the grant of a sub-license, except with that part of the enterprise or goodwill which exploits such license’.²⁸⁰
- (b) Unfair competition – ‘Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition’.²⁸¹ States are required to implement ‘effective protection’.²⁸²

²⁷⁶ TRIPs Art 2.1; *Paris Convention for the Protection of Industrial Property* (Paris Convention 1967) of 20 March 1883, as revised at Brussels on 14 December 1900, at Washington on 2 June 1911, at The Hague on 6 November 1925, at London on 2 June 1934, at Lisbon on 31 October 1958, and at Stockholm on 14 July 1967 (Stockholm, 14 July 1967); entry into force generally of substantive provisions (Articles 1-12) on 26 April 1970 and entry into force generally of administrative provisions (Articles 13-30): 26 April 1970; entry into force for Australia of substantive provisions on 27 September 1975 and entry into force for Australia of administrative provisions on 25 August 1972.

²⁷⁷ Paris Convention 1967 Art 5.A(2).

²⁷⁸ Paris Convention 1967 Art 5.A(3).

²⁷⁹ Paris Convention 1967 Art 5.A(4).

²⁸⁰ Paris Convention 1967 Art 5.A(4).

²⁸¹ Paris Convention 1967 Art 10*bis*(2).

²⁸² Paris Convention 1967 Art 10*bis*(1).

By expressly capturing parts of the Paris Convention 1967, TRIPs is a later treaty dealing with the same subject matter, and according to the *Vienna Convention on the Law of Treaties*, '[w]hen all the parties to the earlier treaty are parties also to the later treaty ... the earlier treaty applies only to the extent that its provisions are compatible with those of the later treaty'.²⁸³ The effect of this provision in Australia is arguably that TRIPs saves the operation of the identified parts of the Paris Convention 1967 that are 'compatible' with the exceptions scheme set out in TRIPs. The issue is to determine whether compulsory licensing and unfair competition measures in the Paris Convention 1967 are 'compatible' with the provisions of TRIPs? These additional provisions in the Paris Convention 1967 and how they apply through TRIPs remains uncertain, although some of the developing and least developed states have asserted the saving of these provisions and their application to limit 'exclusive rights'.²⁸⁴ If this These are potential grounds for Australia to develop and apply patent and competition laws that promote Australia's particular interests.

6.3 Exhaustion of rights – Art 6

Art 6 provides that '[f]or the purposes of dispute settlement under this [TRIPs] Agreement subject to the provisions of Arts 3 [National treatment] and 4 [Most-favoured-nation treatment]²⁸⁵ nothing in this [TRIPs] Agreement shall be used to address the issue of the exhaustion of intellectual property rights'. This provision reflects the long history and ongoing dispute about the merits of limiting the patent holder's control to permit the free exchange of products protected by a patent.²⁸⁶ Among member states exhaustion is

²⁸³ *Vienna Convention on the Law of Treaties*, Art 30(3); noting that where 'a State [is] party to only one of the treaties, the treaty to which both States are parties governs their mutual rights and obligations' (Art 30(4)); this approach has been endorsed by the WTO's dispute settlement scheme, see for example *United States – Standards for Reformulated and Conventional Gasoline* (1996) WT/DS2/AB/R, 16-17; *India – Patent Protection for Agricultural and Chemical Products* (1998) WT/DS50/R, 46.

²⁸⁴ See for example Council for Trade-Related Aspects of Intellectual Property Rights, *Submission by the African Group, Barbados, Bolivia, Brazil, Cuba, Dominican Republic, Ecuador, Honduras, India, Indonesia, Jamaica, Pakistan, Paraguay, Philippines, Peru, Sri Lanka, Thailand and Venezuela* (2001) IP/C/W/296, 7-8.

²⁸⁵ As a generalisation these provisions require WTO members states to treat nationals of other members states no less favorable than their own nationals and any advantage, favour, privilege or immunity granted to nationals of another country must also be accorded to all other nationals of WTO member states.

²⁸⁶ This was particularly contentious during the TRIPs negotiations: see for examples Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Trade in*

regulated at the state, international and regional levels.²⁸⁷ In most cases patent holders (and their licensees and assignees) carefully commercialise their patent privileges through arrangements that seek to avoid exhaustion, until the final consumer purchases the product protected by the patent. However, territorial distribution monopolies (also known as 'parallel importing' or 'grey marketing') are susceptible to exhaustion and reflect the lack of international consensus, even among developed states.²⁸⁸ As a generalisation, 'parallel importing' or 'grey marketing' is the importing of legitimately purchased goods protected by intellectual property rights in one state jurisdiction into another state jurisdiction with the same, or similar intellectual property right, for resale without authorisation.²⁸⁹

The contentious issue is that restrictions on importing allow distinct territorial distribution markets with price discrimination levying higher prices onto some consumers. Removing these territorial barriers limits price discrimination through international arbitrage. As a generalisation, those advocating strong 'parallel import restrictions' argue that price discrimination is an essential part of the incentive to innovate, there are efficiencies in distribution by the right holder and the restrictions maintain important product standards and quality (such as pre-sales advice and customer service programs). Again, as a generalisation, those advocating removing 'parallel

Counterfeit Goods: Compilation of Written Submissions and Oral Statements (1988)

MTN.GNG/NG11/W/23, 14; Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Meeting of Negotiating Group of 3-4 July 1989* (1989)

MTN.GNG/NG11/13, 13; Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Meeting of Negotiating Group of 12-14 July 1989* (1989)

MTN.GNG/NG11/14, 9-10 and 14-15; Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Meeting of Negotiating Group of 2, 4 And 5 April 1990* (1990)

MTN.GNG/NG11/20, 10-11; Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Meeting of the Negotiating Group of 1 November 1990* (1990) MTN.GNG/NG11/27, 1-2.

²⁸⁷ For examples see Margreth Barrett, 'The United States' Doctrine of Exhaustion: Parallel Imports of Patented Goods' (2000) 27 *Northern Kentucky Law Review* 911, 915-917.

²⁸⁸ See for example Ann Capling, 'The Conundrum of Intellectual Property Rights: Domestic Interests, International Commitments and the Australian Music Industry' (1996) 31 *Australian Journal of Political Science* 301; this disagreement is also compounded in trading zones that require the free movement of goods within the zones and across national borders (such as the European Union): see for example Isabel Britton and Ian Karet, 'Parallel Imports Continue: The Exhaustion Principle Upheld' (1997) 4 *European Intellectual Property Review* 207.

²⁸⁹ See generally Louise Logdin, 'Making the Most of Article 6: Parallel Importing in Australia and New Zealand' (2001) 45 *Intellectual Property Forum* 22, 36-37; Warwick Rothnie, *Parallel Imports* (1995).

import' restrictions argue goods protected by intellectual property rights are in the same position as all other goods, only legitimately purchased goods can be imported and consumers are not paying excessive prices. These positions are reflected among the member states. For example, some of the developing and least developed states maintain that there should be no limitations on exhaustion allowing the right of exhaustion to be exercised 'without hindrance' in accordance with the goal of reducing distortions and impediments to international trade.²⁹⁰ In contrast, the United States asserts:

There is no question that Art 6 denies Members the ability to avail themselves of dispute settlement in relation to questions involving parallel imports, except where those questions involve national or most-favoured nation treatment. However, Art 6 of the TRIPs Agreement does not, in our view, authorise parallel imports. Members must remember that Art 6 does not alter the substantive obligations of the TRIPs Agreement, particularly those ... [establishing the minimum patenting standards]. In our view, advocates of parallel importing overlook the fact that permitting such imports discourages patent owners from pricing their products differently in different markets based upon the level of economic development because of the likelihood that, for example, products sold for a low price in a poor country will be bought up by middle men and sent to wealthiest country markets and sold at higher prices, for the benefit primarily of the middle men.²⁹¹

The Declaration in effect maintained the *status quo*, providing:

... while maintaining our commitments in the TRIPS Agreement, we recognize that these flexibilities include: ... (d) The effect of the provisions in the TRIPs Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge, subject to the most favored nation and national treatment provisions ...²⁹²

The significance of the Declaration is to confirm that the provisions in Art 28 that sets out the 'exclusive rights' to include the right to prevent third parties from importing patent protected products without consent does not limit member states from implementing

²⁹⁰ Council of Trade-Related Aspects of Intellectual Property Rights, *Special Discussion on Intellectual Property and Access to Medicines* (2001) IP/C/M/31, 5.

²⁹¹ Council of Trade-Related Aspects of Intellectual Property Rights, *Special Discussion on Intellectual Property and Access to Medicines* (2001) IP/C/M/31, 40.

²⁹² Ministerial Conference, *Declaration on the Trips Agreement and Public Health* (2001) WT/MIN(01)/DEC/2, 1.

separate exhaustion schemes. Thus, parallel import restrictions on legitimately obtained patent protected products are allowable under TRIPs, and cannot be subject to the dispute settlement scheme. In Australia this is a significant issue as the approach to 'parallel import' restrictions for some copyright and other products protected by intellectual property rights has not been extended to products protected by patents.²⁹³ Applying exhaustion schemes to products protected by patents may reduce distortions in the domestic market and make products more accessible and affordable.

However, before adopting a liberal exhaustion scheme, there are other issues that remain unresolved and may need further consideration depending on what form of exhaustion is proposed:

- (a) It is not clear whether TRIPs establishes a self-contained scheme for intellectual property outside the GATT rules²⁹⁴ that excludes prohibitions and restrictions that are not duties, taxes or other charges.²⁹⁵ If GATT rules apply, national exhaustion schemes that block the import of patent protected products may be challenged;
- (b) The threshold for determining when a patent privilege is exhausted is uncertain, as the term 'exhausted' is not defined. Any resolution to this will be by negotiation as an interpretation through the dispute settlement scheme would seem to be excluded by Art 6 itself; and
- (c) It is not clear whether regional exhaustion schemes are inconsistent with Arts 3 and 4, and the general requirement in Art 27(1) that there be no 'discrimination' with respect to place of invention, field of technology and whether products are imported or locally produced.

²⁹³ For a recent analysis of some 'parallel importing' issues in Australia see IPCR Committee, above n 21, app 5.

²⁹⁴ See Marco Bronckers, 'The Exhaustion of Patent Rights under World Trade Organisation Law' (1998) 32 *Journal of World Trade* 137.

6.4 Anti-competitive measures – Arts 8(2) and 40

To address the particular concerns of developing and least developed states about the exercise of intellectual property rights in the TRIPs negotiations, Arts 8(2) and 40 were included.²⁹⁶ Art 8(2) specifically addressed abuses and restrictions against trade and technology transfer, while Art 40 is concerned specifically with anti-competitive licensing practices.

Art 40 provides that member states may adopt ‘appropriate measures’ to ‘protect or control’ some ‘licensing practices and conditions’ in contractual licenses. Significantly TRIPs accepts that ‘some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology’.²⁹⁷ The uncertain language of Art 40 means that the scope of this provision is unclear and reflects the lack of international consensus about regulating competition.²⁹⁸

While there have been no disputes specifically about ‘appropriate measures’ between member states, the decision in *Canada – Patent Protection of Pharmaceutical Products*²⁹⁹ accepted, in the context of public health, that measures to limit the *de facto* extension of a patentee’s ‘exclusive rights’ beyond the term of the patent as a result of regulatory approval delays was an ‘appropriate measure’.³⁰⁰

²⁹⁵ *General Agreement on Tariffs and Trade* Art XI(1), made at Geneva, 30 October 1947; entry into force generally and for Australia on 1 January 1948 (provisionally).

²⁹⁶ See for example Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Standards and Principles Concerning the Availability, Scope and Use of Trade-Related Intellectual Property Rights: Communication From India* (1989) MTN.GNG/NG11/W/37, 8.

²⁹⁷ TRIPs Art 40(1).

²⁹⁸ For example the United Nations suspended negotiation of the *Code of Conduct on the Transfer of Technology* in 1985: see Secretary General, *Negotiation on an International Code of Conduct on the Transfer of Technology* (1995) DOC.TD/COE/DT/60; for a recent analyses of this issue see Joel Davidow and Hal Shapiro, ‘The Feasibility and Worth of a World Trade Organisation Competition Agreement’ (2003) 37 *Journal of World Trade* 49.

²⁹⁹ *Canada – Patent Protection of Pharmaceutical Products* (2000) WT/DS114/R.

³⁰⁰ (2000) WT/DS114/R, 154.

The key issues in applying these provisions are to determine what conduct falls within the scope of the provisions and then whether the proposed measures to address that conduct are 'consistent with the provisions of this [TRIPs] Agreement' and 'appropriate'. This remains uncertain and in large part will depend on the interpretation of the objectives and principles in Arts 7 and 8(1). Further, it is unclear:

- (a) What status Art 8(2) has as a substantive rule within TRIPs, or whether it is merely a statement of principle;
- (b) The interaction between Arts 8(2) and 40, and especially the consultation provision of Art 40, as it is unlikely that much of the conduct within the scope of Art 8(2) could not also be characterized within the scope of Art 40;
- (c) What types and classes of conduct that Art 8(2) contemplates, given the uncertain origin of the language and the pre-existence of comprehensive pro-competition schemes in most developed states to address intellectual property abuses and restraints on trade;
- (d) Whether Art 8(2) extends to changing the structures of a market (rather than just to conduct in a market), such as regulation of mergers and acquisitions; and
- (e) The ongoing and uncertain nature of obligations on developed states to transfer technology to developing and least developed states under TRIPs and other international agreements (such as the *Convention on Biological Diversity*).³⁰¹

The major developments in dealing with the interaction between patents and competition law are likely to be in bilateral agreements between member states³⁰² and the development of guidelines by developing states to direct conduct in their jurisdictions.³⁰³

³⁰¹ Arts 15 and 16; [1993] ATS 32.

³⁰² This is particularly the case as the WTO is more concerned with market access issues that are likely to be complicated by attempts to address competition policy issues in the same forum: see for a review of

6.5 Exception to rights conferred – Art 30

TRIPs expressly recognises in Art 30 that ‘limited exceptions’ to the patentee’s ‘exclusive rights’, ‘provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties’.³⁰⁴ The extent of this exception is unclear, although the WTO Panel decision in *Canada – Patent Protection of Pharmaceutical Products*³⁰⁵ established that a patentee’s ‘exclusive rights’ could be limited in certain circumstances.

In that case, Canada introduced the domestic law exceptions to a patent holder’s ‘exclusive rights’ to promote competition in the domestic pharmaceutical market in an attempt to overcome the price distortions caused by the patents. This was also a mechanism to reduce the cost of pharmaceuticals for the publicly funded health system. This case found that exceptions to a patent holder’s ‘exclusive rights’ should be interpreted flexibly to allow adjustments to meet broader policy objectives other than just the rights of inventors within the scope of the patent grant.

The Panel stated:

In the Panel’s view, Art 30’s very existence amounts to a recognition that the definition of patent rights contained in Art 28 would need certain adjustments. On the other hand, the three limiting conditions attached to Art 30 testify strongly that the negotiators of the [TRIPs] Agreement did not intend Art 30 to bring about what would be equivalent to a renegotiation of the basic balance of the [TRIPs] Agreement. Obviously, the exact scope of Art 30’s authority will depend on the specific meaning given to its limiting conditions. The words of those conditions must be examined with particular care on this point. Both the goals and the limitations stated in Arts 7 and 8(1) must obviously be borne in mind when

international actions on trade and competition Joel Davidow and Hal Shapiro, ‘The Feasibility and Worth of a World Trade Organisation Competition Agreement’ (2003) 37 *Journal of World Trade* 49.

³⁰³ In Australia: Trade Practices Commission, *Application of the Trade Practices Act to Intellectual Property* (1991); in the United States: United States Department of Justice and Federal Trade Commission, *Anti-trusts Guidelines for the Licensing of Intellectual Property* (1995).

³⁰⁴ TRIPs Art 30.

³⁰⁵ *Canada – Patent Protection of Pharmaceutical Products* (2000) WT/DS114/R.

doing so as well as those of other provisions of the TRIPS Agreement which indicate its object and purposes'.³⁰⁶

The Panel accepted that the 'limited exceptions' contemplated by Art 30 should be narrowly defined to 'connote a narrow exception – one which makes only a small diminution of the rights in question'.³⁰⁷ Significantly, the Panel concluded that in the absence of other indicators, 'it would be justified in reading the text [of Art 30] literally, focusing on the extent to which legal rights have been curtailed, rather than the size or extent of the economic impact'.³⁰⁸ So in the present dispute, the Panel found the Canadian law allowing pharmaceutical stockpiling before the patent term expired was without limits on the quantity that could be stockpiled and was therefore a 'substantial curtailment' rather than a 'limited exception', and so contrary to Art 30.³⁰⁹ Given this finding it was not necessary for the Panel to consider the other elements of Art 30 for stockpiling. However, the Panel expressly left open the question of how much curtailment of the patent holder's 'exclusive rights' was sufficient to constitute a 'substantial curtailment' and so 'whether a particular exception constitutes a limited exception, the extent to which the patent owner's rights have been curtailed must be measured'.³¹⁰ In reaching this conclusion the Panel noted that each possible limitation needed to be considered independently and the commercial detriment to the patent holder's 'exclusive rights' was also relevant in assessing curtailment.³¹¹

In contrast, the Panel accepted that the Canadian law allowing an exception for regulatory review was a 'limited exception' because 'the exception is confined to conduct needed to comply with the requirements of the regulatory approval process, the extent of the acts unauthorized by the right holder that are permitted by it will be small and narrowly bounded'.³¹² Perhaps reading into the Panel's decision, the presence of regulatory review provisions in a number of member states' laws (including Australia) seemed to be

³⁰⁶ (2000) WT/DS114/R, 154.

³⁰⁷ (2000) WT/DS114/R, 155.

³⁰⁸ (2000) WT/DS114/R, 155.

³⁰⁹ (2000) WT/DS114/R, 156.

³¹⁰ (2000) WT/DS114/R, 155.

³¹¹ (2000) WT/DS114/R, 155.

significant in persuading the Panel that such exceptions were in fact limited. The Panel considered that the ‘normal practice’ of exploitation by patent owners was ‘to exclude all forms of competition that could detract significantly from the economic returns anticipated from a patent’s grant of market exclusivity’.³¹³ In the present matter the Panel considered that market exclusivity beyond the patent term as a result of delayed regulatory approval (*de facto* ‘exclusive rights’) was not a ‘normal practice’,³¹⁴ and therefore the further element of ‘unreasonableness’ was not considered.³¹⁵ Significantly, the Panel accepted that the term ‘normal’ can ‘be understood to refer either to an empirical conclusion about what is common within a relevant community, or to a normative standard of entitlement’.³¹⁶ The Panel therefore accepted the regulatory review provisions were within the scope of this limb of Art 30.

In assessing the final limb of Art 30, the Panel considered the term ‘legitimate interests’ in the context of Art 30, ‘must be defined in the way that it is often used in legal discourse – as a normative claim calling for protection of interests that are ‘justifiable’ in the sense that they are supported by relevant public policies or other social norms’.³¹⁷ This view was supported by the negotiating records of the TRIPS that showed an early draft of Art 30 contemplated exceptions for private use, scientific use, prior use, a traditional exception for pharmacists, and the like,³¹⁸ although this approach was abandoned in favour of a general authorization.³¹⁹ The Panel expressed some sympathy for including the policy justifying national patent laws as determining the scope of a ‘legitimate interest’ and this was broader than just legal interests.³²⁰ Further, the Panel concluded ‘on balance’ that ‘the interest claimed on behalf of patent owners whose effective period of market exclusivity had been reduced by delays in marketing approval was neither so compelling nor so widely recognized that it could be regarded as a ‘legitimate interest’

³¹² (2000) WT/DS114/R, 158.

³¹³ (2000) WT/DS114/R, 161.

³¹⁴ (2000) WT/DS114/R, 161-162.

³¹⁵ (2000) WT/DS114/R, 162.

³¹⁶ (2000) WT/DS114/R, 161.

³¹⁷ (2000) WT/DS114/R, 164.

³¹⁸ See Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Status of Work in the Negotiating Group* (1990) MTN.GNG/NG11/W/76, 18.

³¹⁹ *Canada – Patent Protection of Pharmaceutical Products* (2000) WT/DS114/R, 165.

within the meaning of Art 30'.³²¹ In this case market exclusivity beyond the patent term was not a 'legitimate interest' for the purposes of Art 30 and so could not be 'unreasonably prejudiced'.³²²

The Panel concluded because Canada's regulatory review provision complied with each limb of Art 30 the domestic law was therefore not in conflict with TRIPs. Further, no discrimination as to the field of technology was found (a requirement of Art 27) as Canada asserted the regulatory review provision was available wherever regulatory approval was required.³²³ The European Union was unable to rebut this contention even though the Canadian laws had been enacted with pharmaceuticals in mind suggesting that skillful drafting of legislation can avoid claims of discrimination.

The significance of this case is to suggest that the objectives and principles in Arts 7 and 8(1) do not in themselves provide a mechanism to limit 'exclusive rights', but rather, affect the interpretation of the other parts of TRIPs. In the context of Art 30, this allows considerable scope to interpret the key terms 'unreasonably conflict', 'normal exploitation', 'unreasonable prejudice' and 'legitimate interests'. A broad interpretation of any of these terms might justify a 'limited exception' to the patentee's 'exclusive rights', particularly if the 'legitimate interests of third parties' are taken to have considerable weight in assessing what are the 'legitimate interests of the patent owner'. However, this should not be a 're-negotiation of the basic balance of the [TRIPs] Agreement'.³²⁴

This is likely to be an area of considerable development as member states seek to take advantage of TRIPs to promote domestic innovation and technology transfer for the benefit and advantage of their domestic markets and economies. The Panel decision established that early working provisions (Bolar exceptions) are an 'appropriate

³²⁰ (2000) WT/DS114/R, 163-165.

³²¹ (2000) WT/DS114/R, 168.

³²² (2000) WT/DS114/R, 169.

³²³ (2000) WT/DS114/R, 171-174.

³²⁴ (2000) WT/DS114/R, 154.

measure’,³²⁵ and that other collateral advantages from patent privileges may be restricted. However, while the scope of collateral advantages that may be restricted may be uncertain, it is unclear whether Art 30 is confined to these collateral advantages or might extend further to restrict the ‘core’ ‘exclusive rights’, and if so, how far.

6.6 Other use without the authorization of the right’s holder – Art 31

TRIPs allows, in Art 31, for Member states to have laws that allow ‘other use of the subject matter of a patent without the authorization of the right holder’ subject to respecting conditions aimed at protecting the ‘legitimate interests’ of the rights holder. The ‘other use’ refers to ‘use other than that allowed under Art 30’.³²⁶ This includes government use and uses by a third party that has been authorised by government. Most importantly, this provision has been cited as the authority for member states to implement compulsory licensing schemes³²⁷ and originated from a proposal to restrict compulsory licensing in the initial TRIPs proposal.³²⁸ While this provision *does not* specify the grounds for issuing a compulsory license, it *does* impose procedural requirements on the circumstances in which a compulsory license may be issued. The requirements are that each authorisation is to be considered on its merits and subject to review, that efforts to obtain authorization on reasonable commercial terms and conditions have been unsuccessful within a reasonable time, the authorization has a limited scope and duration, the authorized use is not exclusive, the authorized use is not assignable, the authorized use is ‘predominantly for the supply of the domestic market’, the authorized use may be terminated when the circumstances requiring authorization cease and there is adequate remuneration and this decision is reviewable.³²⁹ The issuing of compulsory licenses for anti-competitive conduct is treated separately,³³⁰ and additional requirements are imposed

³²⁵ See also National Economic Research Associates, *Policy Relating to Generic Medicines in the OECD: Final Report for the European Commission* (1998).

³²⁶ TRIPs Art 31 (footnote).

³²⁷ See for example Council for Trade-Related Aspects of Intellectual Property Rights, *Communication from the European Communities and their Member States* (2001) IP/C/W/280, 2.

³²⁸ Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Suggestion by the United States for Achieving the Negotiating Objective, United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights* (1987)

MTN.GNG/NG11/W/14, 7.

³²⁹ TRIPs Art 31(a)-(j).

³³⁰ TRIPs Art 31(k).

for the proper working of another patent (dependent patents).³³¹ Significantly, the requirement to first seek authorization on commercial terms and conditions can be waived in cases of ‘national emergency’, ‘other circumstances of extreme urgency’³³² and in cases of public non-commercial use.³³³

Compulsory licensing was included in TRIPs negotiations, accepting that compulsory licensing is an appropriate limitation on a patentee’s ‘exclusive rights’.³³⁴ However, the scope of compulsory licensing remains controversial (particularly the ground of ‘non-working’),³³⁵ with resolution being found in a final TRIPs text focussing instead on procedural requirements.³³⁶ This however leaves the controversial issue of the grounds justifying a compulsory license open to further negotiation and dispute.

This provision has not been directly considered under the dispute settlement scheme. However, in *Argentina – Certain Measures on The Protection of Patents and Test Data*³³⁷ the United States asserted that ‘Argentina fails to provide certain safeguards for the granting of compulsory licenses, including timing and justification safeguards for

³³¹ TRIPs Art 31(l).

³³² There appears to be consensus among WTO member states that the level of HIV/AIDS infection reported in some developing countries is within the meaning of a ‘national emergency’ or as a ‘circumstance of extreme urgency’: see for example Council for Trade-Related Aspects of Intellectual Property Rights, *Communication from the European Communities and their Member States* (2001) IP/C/W/280, 3.

³³³ TRIPs Art 31(b).

³³⁴ See Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Suggestion by the United States for Achieving the Negotiating Objective, United States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights* (1987) MTN.GNG/NG11/W/14, 4.

³³⁵ For examples of this controversy compare the European Communities stance (Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Guidelines and Objectives Proposed by the European Community for the Negotiation on Trade-Related Aspects of Substantive Standards of Intellectual Property Rights* (1988) MTN.GNG/NG11/W/26) with India’s stance (Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, *Standards and Principles Concerning the Availability, Scope and Use of Trade-Related Intellectual Property Rights: Communication from India* (1989) MTN.GNG/NG11/W/37); this reflects in part the domestic tensions in the United States upholding the absolute right of the patentee to exclude others from using the invention: for an analysis of United States cases see Joseph Yosick, ‘Compulsory Patent Licenses for Efficient Use of Inventions’ (2001) *University of Illinois Law Review* 1275, 1279-1282.

³³⁶ See GATT Secretariat, *Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations* (1990) MTN.TNC/W/35/Rev.1, Art 34.

³³⁷ (2000) WT/DS196/1.

compulsory licenses granted on the basis of inadequate working'.³³⁸ The concern appears to have been that Argentinean laws established a scheme for the granting of a compulsory license in circumstances the laws defined to be 'anti-competitive' practices without reference to an adjudication that the practice was also in breach of competition laws. Following consultations, the parties notified a mutually agreed solution that Argentina would not issue a compulsory license in circumstances the laws defined to be 'anti-competitive' practices unless an adjudication had first been made that the circumstances was also an abuse of a dominant position in a market according to domestic competition laws.³³⁹ The parties agreed that this compromise was consistent with Argentina's obligations under TRIPs Art 31(k).³⁴⁰

Then in *Brazil – Measures Affecting Patent Protection*³⁴¹ the United States requested consultations with Brazil under the dispute settlement scheme because Brazil had included a 'local working' requirement subject to a obligatory compulsory license for 'failure to manufacture or incomplete manufacture of the product' or 'failure to make full use of the patented process' in Brazil. The complain was later withdrawn and a joint communication from the parties set out their agreement that the Brazilian Government would consult with the United States Government before issuing a compulsory license over a patent held by a United States resident.³⁴² This dispute illustrated the ongoing differences of opinion about the grounds for issuing compulsory licenses and that issuing a compulsory license on the ground of 'local non-working' of a patent remains open to question.³⁴³ Further, the different perspectives on the operation of this provision generally divide among developed and developing and least developed member states. For example, the developed states assert that Art 31 must be read in conjunction with the other provisions of TRIPs, such as Art 27, so that only domestic production can justify a

³³⁸ *Argentina – Certain Measures on The Protection of Patents and Test Data* (2000) WT/DS196/1, 1.

³³⁹ (2000) WT/DS196/4, 2.

³⁴⁰ (2000) WT/DS196/4, 2.

³⁴¹ (2000) WT/DS199/1.

³⁴² See Office of the United States Trade Representative, *United States and Brazil Agree to Use Newly Created Consultative Mechanism to Promote Cooperation on HIV/AIDS and Address WTO Patent Dispute*, Press Release, 25 June 2001, 01-46; World Trade Organisation, *Brazil – Measures Affecting Patent Protection: Notification of Mutually Agreed Solution* (2001) WT/DS199/4G/L/4541P/D/23/Add.1.

compulsory license.³⁴⁴ In contrast the developing and least developed states assert that Arts 27 and 28 address different matters and circumstances and that these provisions therefore do not limit the issuing of compulsory licenses.³⁴⁵ The Declaration affirmed these different positions and failed to provide any further guidance:

... while maintaining our commitments in the TRIPS Agreement, we recognize that these flexibilities include: ... (b) Each Member has the right to grant compulsory licenses and the freedom to determine the grounds upon which such licenses are granted.³⁴⁶

Subsequent negotiations have brought these different positions into view. The Declaration identified problems in TRIPs that required further work and ongoing negotiation with an instruction 'to find an expeditious solution to this problem' for member states with 'insufficient or no manufacturing capacities in the pharmaceutical sector' to enable effective compulsory licensing.³⁴⁷ As a measure of the strong disagreement among member states about the grounds for issuing compulsory licenses and the consequences of conceding any 'new' grounds, this problem has required a separately negotiated decision.³⁴⁸ The solution is to modify the operation of Art 31(f) and (h),³⁴⁹ with the prospect of amending TRIPs according to this decision at some time in the future.³⁵⁰ The decision imposes conditions about the amounts manufactured and

³⁴³ Note the discussion above about the ongoing dispute about the maintenance of this ground through adoption of the Paris Convention 1967 provisions by TRIPs Art 2(1).

³⁴⁴ See for example Council of Trade-Related Aspects of Intellectual Property Rights, *Special Discussion on Intellectual Property and Access to Medicines* (2001) IP/C/M/31, 37-38.

³⁴⁵ See for example Council for Trade-Related Aspects of Intellectual Property Rights, *Submission by the African Group, Barbados, Bolivia, Brazil, Cuba, Dominican Republic, Ecuador, Honduras, India, Indonesia, Jamaica, Pakistan, Paraguay, Philippines, Peru, Sri Lanka, Thailand and Venezuela* (2001) IP/C/W/296, 8.

³⁴⁶ Ministerial Conference, *Declaration on the Trips Agreement and Public Health* (2001) WT/MIN(01)/DEC/2, 1.

³⁴⁷ Ministerial Conference, *Declaration on the Trips Agreement and Public Health* (2001) WT/MIN(01)/DEC/2, 2.

³⁴⁸ See Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2003) WT/L/540.

³⁴⁹ Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2003) WT/L/540, [2] and [3].

³⁵⁰ Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2003) WT/L/540, [11].

labeling,³⁵¹ extensive reporting requirements³⁵² and measures to limit the diversion of the patent protected products entering other territories.³⁵³ Significantly, the decision attempts to isolate the impact of these modifications of TRIPs from the other parts of TRIPs³⁵⁴ and other TRIPs issues under negotiation.³⁵⁵

The prospective amendment of TRIPs to reflect the expanded scope of Art 31(f) and (h) is unlikely to be easy. As a generalisation, in negotiating the solution the developing and least developed states favoured authoritative interpretations or amendment of Art 31,³⁵⁶ while developed states favoured adding a new clearly circumscribed exception to Art 31³⁵⁷ or a waiver of obligations or moratorium on dispute settlement dealing with the particular circumstances of each case separately and in isolation from TRIPs' obligations.³⁵⁸ The significance of these developments is that any acceptance that TRIPs should be authoritatively interpreted or amended will flow through to the negotiations about other aspects of TRIPs. This is a particularly important issue for any future interpretation of TRIPs about the grounds for issuing compulsory licenses that allows it to meet its objectives and principles according to Arts 7 and 8(1) outside the scope of patents and the saving of the Paris Convention 1967 non-working grounds for issuing compulsory licenses. This potential to expand the review of TRIPs is already apparent in

³⁵¹ Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2003) WT/L/540, [2(b)(i)] and [2(b)(ii)].

³⁵² Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2003) WT/L/540, [2(a)], [2(b)(iii)] and [2(c)].

³⁵³ Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2003) WT/L/540, [4] and [5].

³⁵⁴ Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2003) WT/L/540, [9].

³⁵⁵ Council for Trade-Related Aspects of Intellectual Property Rights, *Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2003) WT/L/540, [9].

³⁵⁶ See for examples Council for Trade-Related Aspects of Intellectual Property Rights, *Proposals on Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2002) IP/C/W/351, 3-7; Council for Trade-Related Aspects of Intellectual Property Rights, *Proposals on Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2002) IP/C/W/355, 3-6.

³⁵⁷ See Council for Trade-Related Aspects of Intellectual Property Rights, *Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2002) IP/C/W/352, 2.

³⁵⁸ See Council for Trade-Related Aspects of Intellectual Property Rights, *Proposals on Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health* (2002) IP/C/W/358, 6-7.

comments by developing and least developed states on other apparently unrelated aspects of reviewing TRIPs.³⁵⁹

This analysis shows that TRIPs is an evolving agreement and that there is considerable 'flexibility' within the current agreement to develop and apply patent laws (and competition laws) in a way that promotes Australia's particular and different economic and technological interests. The following Part 7 analyses the patent privilege related provisions of the AUSFTA to show that much of TRIPs' 'flexibility' is being given up, and further that the policy challenges raised in Part 5 about the lack of evidence demonstrating the benefits of TRIPs-plus patent laws probably have not been addressed.

³⁵⁹ For examples, the 'Review of the Provisions of Article 27.3(b)' (see for example Council for Trade-Related Aspects of Intellectual Property Rights, *Minutes of Meeting* (2003) IP/C/M/39, 19), the 'Relationship between the TRIPS Agreement and the *Convention on Biological Diversity*' (see for example Council for Trade-Related Aspects of Intellectual Property Rights, *Minutes of Meeting* (2003) IP/C/M/39, 26), and the overlapping issues in the Declaration and the 'Review of the Implementation of the Agreement under Art 71.1' (see for example Council for Trade-Related Aspects of Intellectual Property Rights, *Minutes of Meeting* (2003) IP/C/M/38, 56).

7. AUSFTA – ANALYSIS OF SOME OF THE PATENT-RELATED PROVISIONS

Patents are a blunt economic tool to promote investment in useful inventions and address the invention market failure. Their suitability to second-order developed economies, like Australia, is still open to speculation with consequences for the policy settings that might be adopted in implementing the intellectual property requirements of TRIPs and other agreements like the AUSFTA. Thus:

There are legitimate reasons to be concerned about the highly protective [patenting] standards that have emerged recently in the United States and the European Union. These laws and judicial interpretations provide broad patent protection for ... biotechnological inventions ... It remains to be seen whether such standards tilt the balance within those jurisdictions toward the private rights of inventors and away from the needs of competitors and users. It is not too early to claim that they are inappropriate for developing economies and net technology importers.³⁶⁰

Significantly, Australia is a net technology importer,³⁶¹ and whilst its status as a developed country is certain, its economy is of a very different order to the United States, Japan and the United Kingdom, that are the first-order developed nations.³⁶² Further, analyses of patent grants between other developed countries (such as the member countries of the Organisation for Economic Co-operation and Development, OECD; see Table 1) and, by way of example, among Australia's major agricultural export destinations (see Table 2) shows that the United States and Japan patent considerably

³⁶⁰ Keith Maskus, *Intellectual Property Rights in the Global Economy* (2000) 237-238.

³⁶¹ See for example the compiled data of trade in patent-dependant goods presented in John Revesz, *Trade-Related Aspects of Intellectual Property Rights*, Staff Research Paper, Productivity Commission (1999) 61; '[c]omparing the Australian data with the overseas data from 1989 reveals that in recent years, Australia has a greater proportion of imports which are patent-related than any of the other countries examined. Our share of patent-related goods in exports is lower than in most industrialised countries, and comparable to that of a semi-industrialised country like Portugal. The reason for this is Australia's traditional reliance on the exports of primary commodities and the imports of elaborately transformed manufactures. The difference between patent-related exports and imports has in fact narrowed in recent years. It is worth noting from the figures that the share of patent-related exports in trade is particularly high in the leading technology exporting countries such as the United States, Japan, United Kingdom and Germany' (62).

³⁶² For example, Gross Domestic Product (GDP) at 1995 prices and 1995 exchange rates for 2002 in billions of United States dollars: Australia – 484.6, United States – 9186.0, Japan – 5606.5, Canada – 741.4 and United Kingdom – 1354.9: Organisation for Economic Co-operation and Development, *Main Economic Indicators* (2003) 247; while the value added in agriculture as a per cent of GDP (including hunting, forestry and fishing) for a similar period: Australia – 3.5, United States – 1.6, Japan – 1.3, Canada – 2.6 and United Kingdom – 0.9: Organisation of Economic Co-operation and Development, *Main Economic Indicators* (2002) 272-275.

more than other countries. Significantly, of Australia's major agricultural export destinations, the United States holds the majority of non-resident patent grants (approximately 64 per cent). Further, the United States holds a significant proportion of Australia's total patent grants (approximately 44 per cent to total patent grants and 49 per cent of non-resident patent grants in Australia in 2000; Table 1) compared to other countries. In contrast, Japan is marked by a majority of resident patent grants (approximately 89 per cent; Table 1) and limited non-resident patenting (approximately 13 per cent of non-resident patent grants in Australia; Table 3). The United Kingdom and other OECD countries (see Tables 1 and 3) are in a similar position to Australia with the majority of patent grants to non-residents (between approximately 60 and 99 per cent; Table 1) and United States residents holding the majority of these non-resident grants.³⁶³ In these circumstances the policy consideration about the place of intellectual property rights in Australian agriculture are different to the first-order developed countries (such as the United States and Japan). They are also different to those of developing and least developed countries.³⁶⁴ Thus, the benefits and costs to Australia in adopting TRIPs-plus measures are unlikely to be those of the first-order developed countries or the developing (or least developed) countries, but rather a compromise that reflects Australia's particular commercial and environmental interests. The particular inter-related issues that Australia faces are that non-residents holding the majority of patents (see Table 1) in Australia, so residents can increasingly be expected to have to negotiate with non-resident right's holders (and most probably United States residents; see Table 1 and 3). These non-resident intellectual property rights reduce the likely economic benefit to Australia as there will be further economic rents from patent royalties and increased costs (and inefficiencies) in negotiating with the right holder.

³⁶³ See World Intellectual Property Organisation, *Intellectual Property Statistics for 2000* (2000) WIPO/IP/STAT/2000/B, Table I Patents.

³⁶⁴ For an alternative analyses of patent applications and grants among the developing and least developed countries see Charles Lawson and Susan Downing, 'It's Patently Absurd – Benefit Sharing Genetic Resources from the Seas According to UNCLOS, the CBD and TRIPs' (2002) 5 *Journal of International Wildlife Law and Policy* 211.

Table 1: Comparison of number of patent applications filed and grants made as a percentage of totals for residents and non-residents for the Organisation for Economic Co-operation and Development (OECD) countries in descending order of total patent grants. Data compiled from the World Intellectual Property Organisation, *Intellectual Property Statistics for 2000* (2000) IP/STAT/2000/B Table I Patents. The data illustrate the quantitative differences in patent grants by the United States and Japan and that the majority of patent grants are made to non-residents except in the United States, Japan and South Korea.

Country	Patent applications*			Patent grants*		
	Resident (%)	Non-resident (%)	Total applications (100%)	Resident (%)	Non-resident (%)	Total grants (100%)
United States*	52.9	47.1	331,773	54.0	46.0	157,496
Japan	80.0	20.0	486,204	89.2	10.8	125,880
Germany	30.0	70.0	262,550	40.6	59.4	41,585
France	13.4	86.6	160,178	28.3	71.7	36,404
Rep of Korea	42.6	57.4	172,184	65.6	34.4	34,956
United Kingdom	14.4	85.6	233,223	12.4	87.6	33,756
Italy	7.6	92.4	151,188	23.4	76.6	24,937
Netherlands	5.2	94.8	144,341	16.5	83.5	17,052
Spain	1.9	98.1	202,439	10.9	89.1	15,809
Australia*	12.8	87.2	80,721	9.3	90.7	13,916
Sweden	5.0	95.0	204,173	15.1	84.9	13,812
Switzerland	3.5	96.5	201,571	11.0	89.0	12,258
Belgium	1.3	98.7	141,766	6.2	93.8	12,122
Canada	6.4	93.5	85,926	9.2	90.8	12,125
Austria	1.5	98.5	201,030	0.4	99.6	11,266
Denmark	1.7	98.3	200,652	3.7	96.3	8,484
Portugal	0.06	99.94	198,700	0.8	99.2	6,354
Greece	0.04	99.96	140,540	0.05	99.95	6,059
Ireland	0.2	99.8	140,519	0.6	99.4	5,916
Luxembourg	0.1	99.9	198,631	1.1	98.9	5,901
New Zealand	3.3	96.7	67,938	11.9	88.1	4,587
Finland	1.5	98.5	198,293	1.0	99.0	2,557
Poland	3.7	96.3	64,873	38.1	61.9	2,463
Norway	2.7	97.3	68,055	16.4	83.6	2,412
Czech Republic	0.9	99.1	62,645	16.9	83.1	1,611
Hungary	1.4	98.6	62,438	11.0	89.0	1,605
Turkey	0.4	99.6	77,274	2.2	97.8	1,157
Slovak Republic	0.4	99.6	60,511	9.3	90.7	894
Iceland	0.09	99.91	59,656	12.5	87.5	16

* More recent data is available from World Intellectual Property Organisation, *Intellectual Property Statistics for 2001*, IP/STAT/2001/A (2000) Table I Patents that reflect these same trends. Thus, in 2001 Australia had 95 173 applications (made up of 10 244 (10.8%) resident and 84 929 (89.2%) non-resident applications) and 13 983 grants (made up of 1 270 (9.1%) resident and 12 713 (90.9%) non-resident grants), while the United States had 375 657 applications (made up of 190 907 (50.8%) resident and 184 750 (49.2%) non-resident applications) and 166 038 grants (made up of 87 606 (52.8%) resident and 78 432 (47.2%) non-resident grants). Similar data are apparent from international filings under the *Patent Co-operation Treaty*: see World Intellectual Property Organisation, *Yearly Review of the PCT: 2002* (2004) 6.

Table 2: Australia's major exports of agriculture (excluding fisheries, forestry and rubber) in 2002. Data compiled from the Department of Foreign Affairs and Trade (http://www.dfat.gov.au/trade/negotiations/trade_in_agriculture.html#aaebd visited 27 August 2003) and World Intellectual Property Organisation, *Intellectual Property Statistics for 2000* (2000) IP/STAT/2000/B, Table I Patents. The data illustrate quantitatively that Japan and the United States are major export destinations for Australian agriculture and that residents of those destinations are also the major holders of patents.

Destination (**)	A\$b	Rank	%share (***)	Patent grants		
				Resident	Non-resident	Total
Japan	3.8	1	12.8	112,269	13,611	125,880
United States	3.3	2	11.1	85,071	72,425	157,496
China	2.3	3	8.0	6,475	6,881	13,356
United Kingdom	1.2	4	4.2	4,170	29,586	33,756
Rep of Korea	1.2	5	4.0	22,943	12,013	34,956
Indonesia	1.1	6	3.8	*	*	*
New Zealand	1.0	7	3.5	547	4,040	4,587
Taiwan	0.8	8	2.8	*	*	*
Saudi Arabia	0.7	9	2.4	2	6	8
Italy	0.6	10	2.2	4,726	20,211	24,937
Singapore	0.6	11	2.2	110	4,980	5,090
Philippines	0.6	12	2.1	8	558	566
Malaysia	0.6	13	2.0	*	*	*
Canada	0.6	14	1.9	1,117	11,008	12,125
Thailand	0.6	15	1.9	153	388	541

* None recorded by WIPO.

** Agricultural exports by destination and excluding fisheries, forestry and rubber.

*** Per cent share of total agricultural exports excluding fisheries, forestry and rubber.

Table 3: A comparison of country of origin of non-residents receiving Australian patent grants (2000 data) among Australia's major export destination of agriculture products (excluding fisheries, forestry and rubber) in 2002. This Table includes data from Tables 1 and 2 and World Intellectual Property Organisation, *Intellectual Property Statistics for 2000* (2000) IP/STAT/2000/B, Table II(A) Patents. The data illustrate quantitatively that Japan and the United States are major export destinations for Australian agriculture and that the United States residents hold the majority of these non-resident patents in Australia.

Australia's Agricultural exports by destination	Rank	%share of total agricultural exports (***)	Patent grants in Australia	
			Number	%Total (approximate)
Japan	1	12.8	1,231	13
United States	2	11.1	6,072	64
China	3	8.0	401	4
United Kingdom	4	4.2	944	10
Rep of Korea	5	4.0	114	1
Indonesia	6	3.8	*	-
New Zealand	7	3.5	108	1
Taiwan	8	2.8	*	-
Saudi Arabia	9	2.4	*	-
Italy	10	2.2	190	2
Singapore	11	2.2	*	-
Philippines	12	2.1	*	-
Malaysia	13	2.0	*	-
Canada	14	1.9	260	3
Thailand	15	1.9	*	-

* None recorded by WIPO, although these data will be included in the 'Others' that was 187 patent grants in 2000 or 2%.

** None recorded by WIPO.

*** Excluding fisheries, forestry and rubber.

The over-riding objective of the proposed AUSFTA is to benefit Australia's national interest:

The Agreement a[l]so reflects Australia's broad trade and economic interests. It removes almost all barriers to Australia's exports of goods to the United States and provides for a very high degree of economic integration of our markets through comprehensive commitments on a range of areas including trade in services, investment, government procurement, intellectual property, electronic commerce and competition policy. Thus, the Agreement improves access to and facilitates trade with Australia's largest trade and investment partner and the world's largest economy.³⁶⁵

In dealing with intellectual property the Regulatory Impact Statement (RIS) provides:

Intellectual Property: The Agreement includes commitments to strengthen our protection of intellectual property beyond those provided by multilateral agreements such as the WTO's *Trade Related Aspects of Intellectual Property Rights Agreement* and World Intellectual Property Organisation Treaties.³⁶⁶

In describing the impact on Australian business the RIS provides:

The Chapter on Intellectual Property will reinforce Australia's reputation as one of the world's leading countries in protecting and enforcing intellectual property rights. The harmonisation of our laws with the world's largest intellectual property market will provide Australian exporters with a more familiar environment and certain legal environment for the export of value-added goods to the United States. In turn, US investors will be attracted to the Australian market because of greater familiarity and confidence in our legal system.³⁶⁷

Australia's objectives in negotiating the AUSFTA were to:

³⁶⁵ Commonwealth, *Australia - United States of America Free Trade Agreement*, National Interest Analysis (2004) 2.

³⁶⁶ Commonwealth, *Australia - United States of America Free Trade Agreement*, Regulatory Impact Statement (2004) 4.

³⁶⁷ Commonwealth, *Australia - United States of America Free Trade Agreement*, Regulatory Impact Statement (2004) 8; further, there is a recognition that '[t]here are additional commitments to bind our existing standards of regulation in certain aspects of intellectual property protection' (10).

- * Reaffirm the standards established in the *WTO Agreement on Trade-Related Aspects of Intellectual Property Rights* and other international intellectual property agreements to which the USA and Australia are signatories.
- « Seek to ensure that the rights of Australian holders of intellectual property are protected according to international standards in the US, including the right to be remunerated fairly for use of their works.
- « Ensure that Australia remains free to determine the appropriate legal regime for implementing internationally agreed intellectual property standards, maintaining a balance between the holders of intellectual property rights and the interests of users, consumers, communications carriers and distributors, and the education and research sectors.
- « Deepen cooperation on intellectual property issues of mutual interest, advancing our common objectives in multilateral intellectual property negotiations; and strengthening cooperation between our respective intellectual property agencies.
- « Explore opportunities to work with the United States to promote the implementation of effective and appropriate intellectual property systems in the Asia-Pacific region, without limiting the scope of existing activities of this nature.³⁶⁸

The only necessary changes to legislation are stated to be ‘Amendments to the *Patents Act 1990* to ensure that the ground for revocation of a patent will continue to be available’.³⁶⁹ However, other necessary amendments are reported to be presently under consideration.³⁷⁰

The most significant recent development in assessing the costs and benefits of the AUSFTA has been the Centre for International Economics’ report.³⁷¹ Unfortunately, the economic analysis in dealing with patents *only* addresses the likely impact of extending patent terms where there is an issue of protecting test data.³⁷² No other effects of patents were considered, although notably, the report asserts ‘[t]he Agreement reinforces Australia’s existing framework for industrial property protection and strengthens

³⁶⁸ Commonwealth, *Australia - United States of America Free Trade Agreement*, National Interest Analysis (2004) annex 2 (36).

³⁶⁹ Commonwealth, *Australia - United States of America Free Trade Agreement*, National Interest Analysis (2004) annex 8 (50).

³⁷⁰ See Centre for International Economics, *Economic analysis of AUSFTA Impact of the bilateral free trade agreement with the United States* (2004) 35.

³⁷¹ Centre for International Economics, *Economic analysis of AUSFTA Impact of the bilateral free trade agreement with the United States* (2004).

copyright protection'.³⁷³ This lack of economic analysis was also reflected in the negotiation and adoption of TRIPs.³⁷⁴

Without a comprehensive analysis of the likely effects of the current patent arrangements and then how they are likely to be changed by the AUSFTA the place of patents in the AUSFTA is difficult to assess. Perhaps, patents are merely part of the 'to and fro' of negotiation, with the negotiators aware of the likely costs and benefits and offsetting the costs to Australia as a net technology importer against other benefits. As the Australian Government has asserted:

... the free trade agreement is a once in a generation opportunity for Australia to link itself to the world's largest and strongest economy. Thanks to the free trade agreement, over time Australia will become part of a domestic economy that is some 300 million people strong. That historic sense of being a small, vulnerable economy in an uncertain world will finally be dispelled thanks to the free trade agreement that this government has negotiated with the American government.³⁷⁵

However, without actually transparently assessing the costs and benefits, it seems difficult to accept that TRIPs-plus measures are necessarily justified. The following sections set out some of the issues that might be usefully addressed in assessing the costs and benefits of the proposed AUSFTA patent-related provisions.

7.1 Scope and objectives of the AUSFTA

The AUSFTA will now set the minimum standards for patents in Australia. According to TRIPs Art 4, the same patent standards must be applied to all other WTO members states' residents seeking patent privileges in Australia. By agreeing to a TRIPs-plus regime with the United States, those same TRIPs-plus measures will be applied to all

³⁷² Centre for International Economics, *Economic analysis of AUSFTA Impact of the bilateral free trade agreement with the United States* (2004) 41-42; notably these economic impacts are considered to be negligible (although the likely changes to the regulatory scheme were unknown, 42).

³⁷³ Centre for International Economics, *Economic analysis of AUSFTA Impact of the bilateral free trade agreement with the United States* (2004) 41.

³⁷⁴ See Industry Commission, *Extending Patent Life: Is it in Australia's Economic Interests?*, Staff Information Paper (1996) 32.

³⁷⁵ Commonwealth, *Parliamentary Hansard*, House of Representatives, 8 May 2004, 26155 (Prime Minister).

other WTO member states.³⁷⁶ While there may be good reasons to justify this position they have not been disclosed and they do not appear to have been subjected to an assessment according to the framework set out in the CPA.³⁷⁷ Further, this is a surprising development given the opportunities Australia may be giving up to develop patent laws suited to its particular economic and social circumstances as contemplated by TRIPs' 'flexibility'.

7.2 Objectives and principles TRIPs

The provisions of the AUSFTA are notable in excluding the principles and objectives outlined in TRIPs Arts 7 and 8(1). This is a surprising position for Australia to adopt. If Arts 7 and 8(1) are interpreted to mean that each provision of TRIPs should be read in light of these objectives and principles and that TRIPs co-exists with other public policy objectives, then TRIPs' provisions may be overridden to meet these other policy objectives. However, leaving out this possibility apparently confirms that Australia prefers to consider patents as a necessary incentive to promote investment in new inventions and, as a consequence, this promotes the objectives and principles of Arts 7 and 8. Thus in effect, the AUSFTA is likely to affirm that TRIPs, and the TRIPs-plus measures set out in the AUSFTA, override other regulatory schemes. While this may be desirable, the likely consequences of this approach should be properly assessed, relying on the principles articulated in the CPA to identify the justifications for this approach and whether other approaches might be adopted to achieve the same ends without unduly restricting competition in Australia.

³⁷⁶ Notably, Australia did not negotiate equivalent or similar provisions in its agreements with Singapore: *Singapore-Australia Free Trade Agreement* [2003] ATS 16, ch 13.

³⁷⁷ Notably, the IPCR Committee did comment that Australia might benefit from making its intellectual property laws 'on par' with the most developed economies: 'Internationally consistent IP laws benefit Australia as they can facilitate international trade and investment. They do this both by eliminating official barriers to trade and investment and by reducing the transactions costs that would otherwise be faced by Australian exporters and importers—for example, in securing the international transfer of technology and of the results of investment in creative effort: IPCR Committee, above n 21, 27; significantly though, the IPCR Committee made *no* assessment about the particular policy settings or the thresholds at which the detriments from broadly complying with the most developed economies outweighed the benefits.

7.3 More extensive protection

As set out above, more comprehensive patent rights may be more beneficial to the United States than Australia. The AUSFTA restates the TRIPs provision, with some uncertain language changes,³⁷⁸ that domestic laws may implement 'more extensive' measures that the minimum standards required by TRIPs (and hence the AUSFTA).³⁷⁹ The AUSFTA then extends this requirement by providing that both Australia and the United States 'shall endeavour to reduce differences in law and practice between their respective systems'.³⁸⁰ The effect of this provision remains uncertain, although it is conceivable that the United States will lead with ever increasing protection for patent holders and Australia will be compelled to follow. With respect, this may not necessarily be to Australia's advantage. For example, where the scope of a patent is probably an almost complete immunity from competition laws. An assessment of this contention illustrates the concern.

An unresolved question is whether competition laws should be applied to the 'purpose and scope' of the patent privilege, or limited only to those circumstances where the patent holder seeks a 'collateral advantage'. This is a significant unresolved issue in determining the appropriate balance between patent and competition laws, and reinforces the important place of the patent threshold criteria in providing only a sufficient incentive to invention as opposed to an excessive incentive with corresponding potentially anti-competitive consequences. The current Australian policy suggests that a patent privilege is only likely to be limited where it seeks a 'collateral advantage' to the patent privileges without an objective reason.

Thus, in applying the *Trade Practices Act* s 51(3) to determine access to the exemption of certain conditions in licenses and assignments to the exemption, the Trade Practices Commission stated: 'if there is any doubt whether a condition relates to the subject matter

³⁷⁸ The difference is between 'not inconsistent' in the AUSFTA Art 17.1.5 and 'not contravene' TRIPs Art 1(1); the AUSFTA also requires enforcement to be 'not inconsistent' with the AUSFTA: AUSFTA Art 17.1.5.

³⁷⁹ TRIPs Art 1(1); AUSFTA Art 17.1.5.

³⁸⁰ AUSFTA Art 17.9.14.

of a license, the purpose and scope of the exclusive rights granted by the ... [patent] ... will be considered to determine whether a collateral advantage has been achieved by the condition'.³⁸¹ The Australian Government recently supported the development of new guidelines to be issued by the Australian Competition and Consumer Commission addressing the interaction between intellectual property and the *Trade Practices Act* pt IV.³⁸² The AUSFTA are may impose a new standard of the content of these guidelines and removing some of the potential to shape the implementation of competition laws to suit Australia's economic and social circumstances.

The Trade Practices Commission's view appears to be consistent with most court decisions (and many economists)³⁸³ and appears to support the contention that competition laws should only apply to patent privileges when they are used in ways that go beyond the scope of the privileges being granted.³⁸⁴ Thus, in the United States the Federal Circuit decision in *Independent Service Organizations Antitrust Litigation*³⁸⁵ stated, and notably an appeal petition to the United States Supreme Court was denied.³⁸⁶

In the absence of any illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using or selling the claimed invention free from liability under the antitrust laws. We therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patent invention may have an anti-competitive effect, so long as that anti-competitive effect is not illegally extended beyond the statutory patent grant.³⁸⁷

³⁸¹ Trade Practices Commission, *Application of the Trade Practices Act to Intellectual Property* (1991) 13; this is the current Australian Competition and Consumer Commission policy, although a new policy document is expected soon: see Trade Practice Act Review Committee, *Review of the Competition Provisions of the Trade Practices Act* (2003) 87.

³⁸² See Commonwealth, *Review of the Competition Provisions of the Trade Practices Act* (2002) 88 and the Government Response to Recommendation 3.3.

³⁸³ See for an Australian example IPCR Committee, above n 21, 24.

³⁸⁴ While there are no recent Australian cases directly on this point, Australian courts have tended to avoid characterising the circumstances so that this issue needs to be addressed: see for example *APRA Ltd v Ceridale Pty Ltd* (1990) 97 ALR 497; note *Warman International v Envirotech Australia Pty Ltd* (1986) 11 FCR 478, 502.

³⁸⁵ 203 F3d 1322 (2000).

³⁸⁶ 531 US 1143 (2001).

³⁸⁷ *Independent Service Organizations Antitrust Litigation* 203 F3d 1322, 1327-1328 (2000).

In these circumstances other policy objectives might be important to, in the words of TRIPs, 'contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations'.³⁸⁸ This is a significant development in United States law as the United States Department of Justice and the Federal Trade Commission guidelines on licensing intellectual property state:

Intellectual property law bestows on the owners of intellectual property certain rights to exclude others. These rights help the owners to profit from the use of their property. An intellectual property owner's rights to exclude are similar to the rights enjoyed by owners of other forms of private property. As with other forms of private property, certain types of conduct with respect to intellectual property may have anti-competitive effects against which the antitrust laws can and do protect. Intellectual property is thus neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.³⁸⁹

The effect of the *Independent Service Organizations Antitrust Litigation* may be to limit the potential for Australian competition laws to restrict the anti-competitive effects of a patent holder's conduct when they are exercising the 'purpose and scope' of their rights. For example, a patent holder might argue that third line forcing is acceptable in order to protect their reputation and brand and so the 'purpose and scope' of their patent protected product.

7.4 Exemptions from TRIPs

The AUSFTA sets out a narrower range of possible exemptions from TRIPs. Thus, the AUSFTA does not contemplate the exemption of plants and animals (other than micro-organisms) inventions from patent privileges or the essentially biological processes for the production of plants or animals (other than non-biological and microbiological processes).³⁹⁰ Further, the AUSFTA does not appear to consider that an effective *sui*

³⁸⁸ TRIPs Art 7.

³⁸⁹ United States Department of Justice and Federal Trade Commission, *Anti-trusts Guidelines for the Licensing of Intellectual Property* (1995) s 2.1.

³⁹⁰ TRIPs Art 27(3)(b).

generis system (such as plant breeder's right under the *Plant Breeder's Rights Act 1994* (Cth)) might be more appropriate than patenting. This may also be significant to Australia's agriculture sector that relies on access to key germplasm to remain competitive and that is increasingly likely to be subject to patent privileges, potentially competing against the patent holder in their domestic market.³⁹¹

7.5 Revocation of patents

The AUSFTA provides that 'a patent may only be revoked on grounds that would have justified a refusal to grant the patent, or on the basis of fraud, misrepresentation or inequitable conduct'.³⁹² It is not certain what the term 'revoke' means and whether it is confined to only the formal revocation recognized in the *Patents Act* ss 101 and 137, or extends more broadly to the existing forfeiture (after the grant of a compulsory license) provisions in the *Patents Act* ss 133 and 134. The forfeiture requirements in the *Patents Act* s 134 are confusing and have not been applied dealing with unresolved terminology.³⁹³ However, these provisions were intended to address a concern that non-resident patent owners might limit domestic prosperity by hindering domestic manufacture and industry development while at the same time extracting monopoly profits.³⁹⁴ Promoting domestic industry and development may no longer be imperatives,³⁹⁵ but compulsory licensing and forfeiture provide potentially useful tools to implement competition objectives where a non-resident patent holder (or their licensee or assignee) seeks to impose high prices and restrict access to key technology. In these circumstances it is not clear why Australia would want to give up this measure when it is only likely to be applied where a patent holder is unnecessarily or unfairly restricting competition.³⁹⁶

³⁹¹ See the analysis in Charles Lawson, *Patents, plant breeder's rights and the International Treaty on Plant Genetic Resources for Food and Agriculture*, Submission to the Joint Standing Committee on Treaties inquiry into the International Treaty on Plant Genetic Resources for Food and Agriculture (2004).

³⁹² AUSFTA Art 17.9.5.

³⁹³ For an analysis of these provisions see Charles Lawson, 'Patenting Genes and Gene Sequences and Competition: Patenting the Expense of Competition' (2002) 30 *Federal Law Review* 97.

³⁹⁴ See Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (1984) 28.

³⁹⁵ IPCR Committee, above n 21, 162.

³⁹⁶ Notably, the IPCR Committee did not consider the place of revocation, so the assessment of this provision in respect of the CPA is uncertain: see IPCR Committee, above n 21.

7.6 Compulsory licensing patents

The AUSFTA confines the possible scope of the 'other use without the authorization of the right's holder' provisions in TRIPs.³⁹⁷ Most significantly, the AUSFTA provision does not include a remedy where the right's holder refuses to make the patent protected product available unless there is a breach of the competition laws. This is a significant concession in Australia as it is very unlikely that a patent holder would be found to have market power under the *Trade Practices Act* s 46 because of the way a 'market' would be determined,³⁹⁸ or the 'take advantage' would be considered (considered, in part, above).³⁹⁹

The justification for restricting the scope of compulsory licensing further than TRIPs' minimum requirements is uncertain, as even the IPCR Committee conceded that 'the threat of compulsory licensing may lead to innovations being worked sooner and more widely than they would otherwise have been'.⁴⁰⁰ Further, this approach is likely to override the preserved Paris Convention 1967 grounds for issuing compulsory licenses in TRIPs Art 31 including a 'failure to work' and 'appropriate measures' in TRIPs Arts 8(2) and 40 that include the body of rules adopted by states implementing the Paris Convention 1967 to address 'unfair competition'.

7.5 Exhaustion

Where a patentee (or licensee or assignee) sells a product protected by a patent, then the purchaser is entitled 'to an undisturbed and unrestricted use'⁴⁰¹ of the product⁴⁰² (as an implied license or an implied term of sale),⁴⁰³ subject to any agreement to the contrary.⁴⁰⁴

³⁹⁷ TRIPs art 31; AUSFTA Art 17.9.7.

³⁹⁸ See for example Frances Hanks and Phillip Williams, 'Implications of the Decision of the High Court in *Queensland Wire*' (1990) 17 *Melbourne University Law Review* 437.

³⁹⁹ See for example Charles Lawson, 'Patenting Genes and Gene Sequences and Competition: Patenting the Expense of Competition' (2002) 30 *Federal Law Review* 97.

⁴⁰⁰ IPCR Committee, above n 21, 162.

⁴⁰¹ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15, 24.

⁴⁰² *Betts v Willmott* (1871) LR 6 Ch App 239, 245 (Lord Hatherly); cited with approval in *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534, 542 (Gibbs J).

⁴⁰³ See *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534.

⁴⁰⁴ See *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Co Ltd* (1883) 25 Ch D 1; *National Phonograph Co of Australia v Menck* [1911] AC 336; further, the purchaser may repair the product, but not reconstruct it once it reaches the end of its natural life: *Solar Thomson v Barton* [1977]

As a generalisation, exhaustion happens in Australia on sale in Australia, subject to a contrary agreement. While the principle is very clear, its application is uncertain when determining the obligations that flow through to subsequent purchasers and users of the product,⁴⁰⁵ especially where those products are moved between patenting territories.⁴⁰⁶

The IPCR Committee extensively considered 'parallel import' restrictions relating to copyright⁴⁰⁷ and trademarks.⁴⁰⁸ This interest corresponds with recent legislative action.⁴⁰⁹ Unfortunately there was no consideration of this issue for products protected by patents even though many of the same economic considerations and consequences that apply to copyright also apply to patents. Thus, exhaustion rules in Australia might benefit from a review and a consideration of the very wide scope for such rules under TRIPs. With their being no technical limitations in TRIPs, a review of exhaustion rules on patent protected products is overdue and laws might be developed and applied to meet the same objectives for all intellectual property rights. For example, Australia might adopt a rule of international exhaustion so that the legitimate sale of the product protected by a patent anywhere in the world exhausted the patentee's 'exclusive rights' and prevented price discrimination between Australia and other territories. However, the provisions of AUSFTA restrict the exhaustion options for Australia and tie Australia to those favoured by the United States.⁴¹⁰

Significantly, Australia should take notice of the recent developments in the exhaustion rules applied in the United States, from where the majority of Australia's non-resident

RPC 537; although '[t]he principle is quite clear though its application is sometimes difficult; you may prolong the life of a licensed article but you must not make a new one under the cover of repair': *Sirdar Rubber Co v Wallington, Weston & Co* (1907) 24 RPC 539, 543.

⁴⁰⁵ This is an especially interesting issue as patented products are treated differently from other chattels, yet many commentators assert that patents are the same as other forms of property: see for example United States Department of Justice and Federal Trade Commission, *Anti-trusts Guidelines for the Licensing of Intellectual Property* (1995) s 2.1.

⁴⁰⁶ By way of example see *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534.

⁴⁰⁷ IPCR Committee, above n 21, 41-80.

⁴⁰⁸ IPCR Committee, above n 21, 188-191.

⁴⁰⁹ See for example the removal of 'parallel import' restrictions on copyrighted sound recordings: *Copyright Amendment Act (No 2) 1998* (Cth).

⁴¹⁰ See AUSFTA Art 17.9.4.

patent holders reside.⁴¹¹ In *Jazz Photo Corp v International Trade Commission*,⁴¹² the Federal Circuit considered the re-importing of 'lens-fitted film packages' (LFFP's) that had been refurbished in various overseas facilities.⁴¹³ The issues for determination concerned the following categories of LFFP's and whether the patent privileges had exhausted:

- (a) Purchased in the United States and then re-imported – when sold without conditions, was there infringement? No, as the patent privileges exhausted on sale. Although this could easily have been avoided by appropriate conditions imposed at the time of sale;
- (c) Purchased in the United States with more than refurbished (so a remaking of the patented invention) and then re-imported – when sold in the United States without conditions, was there infringement? Yes, as remaking the invention, and so exhaustion was not the issue; and
- (c) Purchased outside the United States and imported – when sold without conditions, was there infringement? Yes, as there was no exhaustion in the United States.

Thus, Justice Newman's decision highlighted that where a product is not purchase under the United States patent, 'a lawful foreign purchase does not obviate the need for license from the United States patentee before importation into and sale in the United States'.⁴¹⁴

⁴¹¹ United States holds the majority of non-resident patent grants in Australia, approximately 64 per cent in 2000: see World Intellectual Property Organisation, *Intellectual Property Statistics for 2000* (2000) IP/STAT/2000/B, Table I Patents.

⁴¹² 264 F.3d 1094 (2001).

⁴¹³ Essentially the facts were: 'In an action brought under section 337 of the Tariff Act of 1930 as amended, 19 USC §1337, Fuji Photo Film Co charged twenty-seven respondents, including the appellants Jazz Photo Corporation, Dynatec International Inc, and Opticolor Inc, with infringement of fifteen patents owned by Fuji. The charge was based on the respondents' importation of used 'single-use' cameras called 'lens-fitted film packages' (LFFP's), which had been refurbished for reuse in various overseas facilities. Section 337 makes unlawful '[t]he importation into the United States ... of articles that ... infringe a valid and enforceable United States patent ... [or that] are made, produced, processed, ... under, or by means of, a process covered by the claims of a valid and enforceable United States patent' 19 USC §1337(a)(1)(B)'.

⁴¹⁴ *Jazz Photo Corp v International Trade Commission* 264 F.3d 1094, 1105 (2001) citing *Boesch v Graff* 133 US 697, 701-703 (1890).

This was significant here as Justice Newman's decision 'applies only to LFFPs for which the United States patent privilege has been exhausted by first sale in the United States', noting that 'imported LFFPs of solely foreign provenance are not immunized from infringement of United States patents by the nature of their refurbishment'.⁴¹⁵ This decision was appealed to the United States Supreme Court, but hearing of the matter was rejected.⁴¹⁶ Whether this establishes this case as the applicable law is open to question, as the Federal Circuit decision over-rules the earlier District Court decision on exhaustion and, interestingly, the Federal Circuit made its decision without the matter being raised or argued by the parties. The Federal Circuit decision makes a significant change to the existing laws because it, in effect, changes international exhaustion to territorial exhaustion so that where a United States patent protected product is sold without restriction in another territory this no longer exhausts the patent's 'exclusive rights' in the United States.⁴¹⁷ However, if this decision as interpreted is correct, then United States patent law now imposes a considerable non-tariff barrier on legitimately purchased goods outside that territory, including where the patent protected product has been licensed or assigned, or not patented at all. This may also extend to protecting products exported to the United States that are not subject to a patent in Australia. This is likely to increasingly affect many patent protected agricultural products exported from Australia to the United States and impose additional restrictions on Australia's agricultural competitiveness.

A closer analysis also shows that Justice Newman's decision reflects a key intellectual property dispute in Australia. That dispute concerned the position of parallel import restrictions for various copyright material under the *Copyright Act 1968* (Cth) before the removal of parallel import restrictions, such as sound recordings by the *Copyright Amendment Act (No 2) 1998* (Cth). Before the removal of these restrictions, a copyright protected product could not be imported into Australia without the consent (license) of the Australian copyright owner even if the product was legitimately sold and purchased in

⁴¹⁵ *Jazz Photo Corp v International Trade Commission* 264 F.3d 1094, 1105 (2001).

⁴¹⁶ See 122 S Ct 2644 (2002).

⁴¹⁷ For further analyses see Margreth Barrett, 'A Fond Farewell to Parallel Imports of Patented Goods: The United States and the Rule of International Exhaustion' (2002) 24 *European Intellectual Property Review* 571.

another territory. A number of reviews⁴¹⁸ and committees⁴¹⁹ have considered the competition effects of parallel import restrictions where legitimately sold and purchased intellectual property protected products are imported into Australia and concluded the restrictions are unwarranted. If this is the case for copyright protected products, then why should patent protected products be different and if the parallel importing restriction is unwarranted then it is in effect a non-tariff barrier to trade.

7.5 Interaction with other agreements including patent-related provisions

It is not clear that the broader consequences of the AUSFTA patent provisions have necessarily been taken into consideration. By way of example, biodiversity-rich states like Australia hold valuable 'genetic resources' necessary for invention and innovation with the potential of economic and technology benefits to be derived in exchange for access to these resources. This is now regulated according to the *Convention on Biological Diversity*,⁴²⁰ and the *International Treaty on Plant Genetic Resources for Food and Agriculture* when it enters into force,⁴²¹ that sets out a regime for access to a state's genetic resources with tied intellectual property restrictions.⁴²² It is not clear how the

⁴¹⁸ Such as the majority in the IPCR Committee, above n 21.

⁴¹⁹ See for example Senate Legal and Constitutional Legislation Committee, *Copyright Amendment Bill (No 2) 1998 (Cth)* (1998).

⁴²⁰ Conference of Parties to the Convention on Biological Diversity, *Report of the sixth meeting of the Conference of the Parties to the Convention on Biological Diversity* (2002) UNEP/CBD/COP/6/20, 262 (Decision VI/24); Conference of Parties to the Convention on Biological Diversity, *Report of the Ad Hoc Open-Ended Working Group on Access and Benefit Sharing* (2001) UNEP/CBD/COP/6/6, Annex (*Bonn Guidelines on Access to Genetic Resources and Fair and Equitable Sharing of the Benefits Arising out of their Utilisation*).

⁴²¹ [2002] ATNIF 14; made at Rome 3 November 2001; '[t]he Government proposes to deposit Australia's instrument of ratification as soon as practicable after the end of the tabling period': *International Treaty on Plant Genetic Resources for Food and Agriculture, National Interest Analysis* (2002) [4] (tabled in the House of Representatives on 3 December 2002); although note that the Parliament's response has not yet been finalised: 'The committee has informed the Minister for Foreign Affairs and the Minister for Agriculture, Fisheries and Forestry that additional time is required beyond the usual 20 sitting day period to consider the proposed treaty action. The additional time will allow the committee to consider concerns raised by key industry stakeholders, such as the Grains Council and Seed Industry Association of Australia, on the detailed financial, technical and policy implications of ratifying the [PGRFA T]reaty': *Treaties Committee Report, Commonwealth, Parliamentary Debates, House of Representatives, 25 March 2003, 13474* (Julie Bishop); see also Charles Lawson, 'Patents and the CGIAR System of International Agricultural Research Centres' Germplasm Collections Under the International Treaty on Plant Genetic Resources for Food and Agriculture' (2004) 55 *Australian Journal of Agricultural Research* 307.

⁴²² For an analysis of the interaction between access to genetic resources and intellectual property rights see Charles Lawson and Susan Downing, 'It's Patently Absurd – Benefit Sharing Genetic Resources from the Seas According to UNCLOS, the CBD and TRIPS' (2002) 5 *Journal of International Wildlife Law and*

AUSFTA will affect the interaction between TRIPs and the *Convention on Biological Diversity*,⁴²³ and the important benefits Australia expects both from its own genetic resources and access to other key genetic resources. This is particularly important where non-resident patent holders can control or restrict the access and use of the genetic resources vital to Australia's agricultural competitiveness.

In competition terms, access to genetic resources in Australia is a potentially significant imposition on the likely benefits delivered by patents because the domestic benefits from patenting are likely to be only derivative benefits,⁴²⁴ the incentives to invent are likely to be overwhelmed by the disincentives generated for non-patent holders and products and processes developed domestically relying on Australia's unique genetic resources will have a significant barrier to entry imposed by the non-resident patent holder in their domestic markets.⁴²⁵

Policy 211; Charles Lawson and Catherine Pickering, 'The Conflict For Patented Genetic Materials Under the Convention on Biological Diversity and the Agreement on Trade Related Aspects of Intellectual Property Rights' (2001) 12 *Australian Intellectual Property Journal* 104; Natalie Stoianoff, 'Access to Australia's Biological Resources and Technology Transfer' (1998) 20 *European Intellectual Property Review* 298.

⁴²³ For a review of the interaction see Charles Lawson and Catherine Pickering, 'The Conflict For Patented Genetic Materials Under the Convention on Biological Diversity and the Agreement on Trade Related Aspects of Intellectual Property Rights' (2001) 12 *Australian Intellectual Property Journal* 104.

⁴²⁴ See for example Charles Lawson and Catherine Pickering, 'The Conflict For Patented Genetic Materials Under the Convention on Biological Diversity and the Agreement on Trade Related Aspects of Intellectual Property Rights' (2001) 12 *Australian Intellectual Property Journal* 104.

⁴²⁵ Charles Lawson, *Patents, plant breeder's rights and the International Treaty on Plant Genetic Resources for Food and Agriculture*, Submission to the Joint Standing Committee on Treaties inquiry into the International Treaty on Plant Genetic Resources for Food and Agriculture (2004).

8. CONCLUSIONS

This submission deals with patents as a utilitarian measure to promote invention and their role in addressing the market failure for invention. According to this model, effective competition together with good market information may create a disincentive to markets inventing (the market failure) because new developments may be rapidly copied without the recovery of the inventor's development costs (a free ride). A patent compensates for the disincentive to invent. This justifies a limited period of 'exclusive rights' during which the inventor may exclude others in order to recover the development costs that theoretically enhances competition for the welfare of consumers by investing in new developments (with the added benefit of disclosure of the invention). However, patents do restrict competition and the challenge for patent laws (and competition laws) is to achieve a balance that adequately encourages invention without unduly restricting competition. However, both patent law and competition law are putting into regulation the theory about competition and market failures resulting from that competition through a property right. This, by its very nature of being a theory, does not have a certain answer, and various views are evolving through experience of the patent and competition schemes. Taking this into account, this submission asserts that the fundamental framework that should be applied to assessing and developing patent laws is the CPA requirements. There are other measures that might be considered in framing and applying the patent laws (and competition laws) that do seek to balance the competing policy objectives of these schemes – the policy levers to fine-tune the schemes – such as taxation incentives and effective and workable competition laws. These measures, however, require 'flexibility' in applying patent laws to suit the particular economic circumstances addressing the circumstances of the market at its particular stage of development.

8.1 *Backing Australia's Ability and patent policy*

Patents laws (and trade practices laws) are statements of general principle, leaving the courts and IP Australia to develop the policy through making decisions about particular facts situations. This contrasts with tax laws and financial entitlement legislation. So,

despite the court's reluctance to make policy decisions in patent matters,⁴²⁶ this is the task that has been set by Parliament. This means patent policy is essential to assist judges in making decisions. With respect, the present patenting policy set out in *Backing Australia's Ability* is unclear – is it to promote invention or to protect investors? The assertion by the Parliamentary Secretary to the Minister for Industry, Tourism and Resources that the existing legislative schemes themselves reflect the Australian Government's intellectual property policy agenda⁴²⁷ fails to consider that the policy objectives are not clearly articulated in the legislation. Further, those attempting to glean that intention have overlooked some considerable controversies,⁴²⁸ or assumed that the existing legislation standards are appropriate.⁴²⁹ Perhaps the most significant outcome from approaching the various ministries (set out in Part 4) was the lack of a coherent patent policy that clearly identified the objectives and purposes of Australia's current patent laws. The analysis of the various reviews of patent laws confirms that the basis for Australia's patent laws is a 'belief'⁴³⁰ about the benefits of patenting without actually addressing the various controversies about the current controversies that are likely to have a significant effect on the particular approach most suited to Australia (see Parts 5 and 6).

⁴²⁶ This is well illustrated by the Federal Court's decisions about patenting methods of medical treatment: see the majority of the Federal Court has decided that the term 'generally inconvenient' does not prevent patents over methods of medical treatment: *Bristol-Myers Squibb v FH Faulding & Co Ltd* (2000) 97 FCR 524, 530 (Black CJ, Lehane and Finkelstein JJ), *Anaesthetic Supplies Pty Ltd v Rescare Ltd* (1994) 50 FCR 1 (Lockhart and Wilcox JJ); the converse approach has been adopted in *Anaesthetic Supplies Pty Ltd v Rescare Ltd* (Sheppard J) and in *Bristol-Myers Squibb v FH Faulding & Co Ltd* (1998) 41 IPR 467 (Heerey J).

⁴²⁷ Parliamentary Secretary's letter, above n 115.

⁴²⁸ Such as the IPCR Committee, above n 21.

⁴²⁹ Such as the NCC, above n 138.

⁴³⁰ The recent United States' Federal Trade Commission (FTC) and Anti-trust Division of the Department of Justice have conducted an inquiry into the interaction between patents and competition law, although only the FTC report has been released examining the patent system maintaining a proper balance with competition law and policy: see Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003); interestingly, the report states '[t]he US economy also reflects the belief that limited exclusive rights in intellectual property – as distinguished from tangible property – can encourage innovation, which also benefits consumers' (ch 1(4)), but in its analysis of the scope and allocation of patent rights, the FTC reviews the changing ascendancy of patent and competition law over the last century, but does not address the issue of the quantum of incentive and the different views about how much incentive is sufficient. This may reflect the particular circumstances of the United States as a net technology exporter with a strong interest in maintaining intellectual property rights.

With respect, a patent policy is central to designing a patent law (and competition law) scheme and challenges the assertion that 'stronger' patent laws are necessarily better. The proper application of the CPA to patent legislation should identify the evidence of demonstrated benefits and provide a more rational basis for developing a policy that really is designed to encourage invention in Australia's social and economic circumstances.

8.2 Intellectual property in Australian Government

While the responses from the various ministries and Australian Government departments (addressed in Part 4) must be tempered by accepting the content of the responses may reflect the particular knowledge of the letter writer as opposed to the Australia Government's particular policy and practice, the results were significant in illustrating the absence of a coherent understanding across the Australian Government about intellectual property issues. If this is correct, then there is some doubt about whether various parts of the Australian Government are contributing to the debate about patent policy and developments taking into account their different interests and constituencies.

The other significant outcome from these responses was the assertion by the he assertion by the Parliamentary Secretary to the Minister for Industry, Tourism and Resources that the Australian Government considers the IPCR Committee's review of intellectual property legislation sets a 'benchmark' to assess future intellectual property initiatives.⁴³¹ As the analysis of the various reviews of patent laws (Part 5) shows, there remain questions about how comprehensive these analyses were and whether they did adequately address the formal assessment framework required by the CPA. Further, significant issues about patent law were not addressed by the IPCR Committee's inquiry, including the threshold of non-obviousness, exhaustion and revocation that feature in the AUSFTA. If this conclusion is correct the basis for adopting further TRIPs-plus measures in Australia's patent laws should be considered further.

⁴³¹ Parliamentary Secretary's letter, above n 115.

8.3 IPCR Committee and the CPA?

The policy objective set out in the CPA was to promote competition by removing unjustified restrictions on competition in Australia.⁴³² For statute based intellectual property rights, like patent privileges set out in the *Patents Act* and the *Trade Practices Act*, the Hilmer Committee report expressed clear concern that these regulations potentially created barriers to entry that might restrict competition,⁴³³ and that the need for exemptions for certain license and assignment conditions from the *Trade Practices Act* were uncertain.⁴³⁴ This submission has examined the various reports addressing patent privileges set out in the *Patents Act* and *Trade Practices Act* and legislative amendments to the *Patents Act* to assess the foundation evidence that might satisfy the requirements of the CPA. These analyses show important controversial issues have been glossed over, even though such an approach was open to both the NCC and IPCR Committee, and that a detailed competition analysis of the appropriate threshold requirements set out in the *Patents Act* and the exemptions in the *Trade Practices Act* have been avoided. According to this assessment these legislation reviews and amending legislation therefore fail to meet the CPAs requirements.⁴³⁵

Perhaps the most revealing part of the Hilmer Committee report was the recognition that ‘[r]egulation that confers benefits on particular groups soon builds a constituency with an interest in resisting change and avoiding rigorous and independent re-evaluation of whether the restriction remains justified in the public interest’.⁴³⁶ To address this particular constituency problem, the Hilmer Committee recommended that the onus of

⁴³² *Competition Principles Agreement* cl 5(1)

⁴³³ See Hilmer Committee, above n 121, 195.

⁴³⁴ Hilmer Committee, above n 121, 150.

⁴³⁵ The recent United States’ Federal Trade Commission (FTC) and Anti-trust Division of the Department of Justice have conducted an inquiry into the interaction between patents and competition law, although only the FTC report has been released examining the patent system maintaining a proper balance with competition law and policy: see Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003); interestingly, the report states ‘[t]he US economy also reflects the belief that limited exclusive rights in intellectual property – as distinguished from tangible property – can encourage innovation, which also benefits consumers’ (ch 1(4)), but in its analysis of the scope and allocation of patent rights, the FTC reviews the changing ascendancy of patent and competition law over the last century, but does not address the issue of the quantum of incentive and the different views about how much incentive is sufficient. This may reflect the particular circumstances of the United States as a net technology exporter with a strong interest in maintaining intellectual property rights.

proving that the restriction on competition was justifiable should change from those advocating change to those advocating that the restriction on competition remain in place, or be imposed.⁴³⁷ This was carried through to the CPA,⁴³⁸ although it does not appear to have featured in the NCC's and IPCR Committee's review of patent privileges. Although, the IPCR Committee's majority's approach to parallel importing under the *Copyright Act 1968* (Cth) suggests that a different approach and focus has significant potential to improve the assessment of patent privileges, and might expand the scope of analysis applied to the *Patents Act* and *Trade Practices Act* in future reviews.

The submission suggests that assessing the controversy over appropriate patent scope and allocation are central to adequately addressing the CPA, although uncertainties about the threshold necessary for the benefit to outweigh the costs under the CPA and how they are to be applied and assessed leaves open further superficial analyses. However, in future reviews further guidance might be set out in the Terms of Reference, noting that there was not an express requirement in the NCC's or IPCR Committee's references to address the appropriateness and consequences of the different views about patent scope and allocation, even though such an assessment was certainly open under the broad language set out in their Terms of Reference.⁴³⁹ The recent transparency requirements agreed by the Council of Australian Governments (CoAG) to the application of the 'public interest' test in the CPA should also assist in understanding how the test has been applied and promote further meaningful refinements in its application to some of the broader debates about patent privileges.

Perhaps the next review of patent privileges according to the CPA,⁴⁴⁰ and future amendments taking the CPA into account will more comprehensively address the controversy about patent scope and allocation, and more likely deliver a more rational patent policy that is more likely suited to the Australian community. Importantly, while

⁴³⁶ Hilmer Committee, above n 121, 191.

⁴³⁷ Hilmer Committee, above n 121, 190.

⁴³⁸ *Competition Principles Agreement* cl 5(1).

⁴³⁹ See NCC, above n 138, v-vi; IPCR Committee, above n 21, 216-217.

the outcome may be similar, it is the process that is more likely to deliver better regulation and the comprehensive assessment contemplated by the Hilmer Committee and the CPA:

... experience makes clear that the most important contribution to quality decisions is not the precision of calculations, but the action of analysis – questioning, understanding real world impacts, exploring assumptions.⁴⁴¹

8.4 TRIPs’ ‘flexibility’

The analyses presented in this submission (see Part 6) illustrate that there remain a number of unresolved issues in interpreting and applying TRIPs. These unresolved issues mean that Australia has an opportunity to take advantage of the TRIPs ‘flexibility’ to promote a domestic competitive advantage. This is an important opportunity for Australia, as Australia’s patent interests are very likely different to both the wealthiest technology generating developed states and the technology deprived and dependant developing and least developed states. In these circumstances the effect for Australia’s economy of the predominantly non-resident patent privileges will be further economic rents from patent royalties and increased inefficiency from additional transaction costs, often with higher transaction costs for access to inventions and know-how that allow Australian firms to compete in other territories. These conditions can be ameliorated through reviewing the patent policy settings and adopting a policy that takes advantage of TRIPs’ ‘flexibility’ to deliver a patent scheme truly suited to Australia’s particular economic and social interests. However, the AUSFTA appears to limit Australia’s ability to take advantage of TRIPs’ ‘flexibility’.

8.5 AUSFTA – analysis of some of the patent-related provisions

The analysis of some of the patent-related provisions in AUSFTA shows that Australia has negotiated an outcome that adopts TRIPs-plus measures and ties Australia’s future patent law developments to those adopted by the United States (see Part 7). Based on the

⁴⁴⁰ The CPA provides that legislation restricting competition should be ‘systematically’ reviewed ‘at least once every ten years’: *Competition Principles Agreement* cl 5(6).

⁴⁴¹ Industry Commission, *Regulation and Its Review 1995-96*, Annual Report Series (1996) 11.

arguably incomplete assessment of the competition effects of the current patent laws (see Part 5), the current 'flexibility' in TRIPs (see Part 6), the absence of a coherent patent policy (see Parts 3 and 4) and the lack of explicit economic modeling about the costs and benefits of the proposed AUSFTA suggests this approach may not be justified without a more rigorous assessment of the proposed AUSFTA provisions.

Perhaps the most significant omission from the AUSFTA is a restatement of the objects and principles of TRIPs and the potential these provisions provide to allow Australia to develop laws so that the 'protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations'.⁴⁴²

8.6 Final comments

In practice, the *Patents Act* and *Trade Practices Act* are statements of general principle, dealing with concepts such as 'manner of manufacture', 'inventive step', 'markets' and 'taking advantage', and leaving the courts to develop the policy. The advantage of this approach has been to craft laws that may then be applied to the many differing circumstances and advances in technology. However, the corresponding difficulty has been for the courts to adequately deal with complex policy issues with very little guidance from Parliament (and the Australian Government) about how those laws are to be applied. The courts are ultimately the adjudicators and policy makers in achieving this balance. In reaching their conclusions, the 'holy grail' of the correct balance of promoting invention by providing a temporary exclusion from competition (the patent) and promoting competition for the benefit of consumers (the competition laws) is unlikely to be achieved. In attempting to achieve a proper balance the courts should be assisted through the rigorous and diverse critiques of both patent law and competition law and their interaction by a clearly articulated patent policy that outlines its purposes and goals. It is only when the Australian Government (and Parliament) articulate a clear

patent policy can the TRIPs-plus measures be properly assessed and agreements such as the AUSFTA be meaningfully scrutinized.

Significantly, the balance between patents and competition laws appears to have changed over time with the ebb and flow of the relative importance of the different perspectives on patents and competition.⁴⁴³ It seems we are currently in a pro-patenting era,⁴⁴⁴ although the requirement that those seeking to restrict competition (and probably international trade) having to justify the restriction⁴⁴⁵ should impose some limits on the potential anti-competitive excesses of patenting. Perhaps the balance may never be achieved:

In applying the details of antitrust law to a plethora of business transactions dealing with patents ... the result in each individual case will largely turn upon one's own personal set of priorities as to the relative importance of intellectual property and antitrust. This in turn, depends upon what one sees as the true goals of both intellectual property law and antitrust law.⁴⁴⁶

However, a clearly articulated policy may promote a more rigorous analysis of the competing interests and a more rational outcome for existing patent privileges and those proposed for the future. The guiding principle of the CPA is a useful tool for identifying the desirability for restricting competition and that is the assessment framework that should be applied to the proposed TRIPs-plus measures set out in the patent-related provisions of the AUSFTA. Notably, the onus is on those advocating stronger and more comprehensive patent privileges to demonstrate their case. With respect, this does not appear to have been undertaken in implementing *Backing Australia's Ability*, the review of patent legislation under the CPA or in negotiating the proposed AUSFTA patent-related provisions.

⁴⁴² TRIPs Art 7.

⁴⁴³ See for example Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) ch 1 (14-23); although it is notable that in the Federal Trade Commission's analyses the conclusion that 'anti-patent' commentary had an 'anti-business' tenor' perhaps reflects the ideological perspective of the authors rather than the intentions of those critical of the current patenting scheme and tends to overlook the content of their commentary.

⁴⁴⁴ Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) ch 1 (22-23).

⁴⁴⁵ See for example Hilmer Committee, above n 121.

This submission's contention that Australia's approach to patent policy appears to reason that the most developed nations have benefited from innovation with a strong intellectual property regime, and so with a similarly strong patent regime in Australia, those same benefits will accrue to Australia, is not justified. Thus, merely adopting the same patent approach and standards as the United States without the assessment required by the CPA is likely to be an unnecessary restriction on competition, unless the Australian Government can demonstrate that the benefits of restricting competition and that the objectives can only be achieved through restricting competition.

⁴⁴⁶ Thomas McCarthy, 'Intellectual Property and Trade Practices Policy: Coexistence or Conflict? The American Experience' (1985) 13 *Australian Business Law Review* 198, 199.

APPENDIX 1 – POSSIBLE QUESTIONS THE COMMITTEE MIGHT ADDRESS

1. What were the details of the trade-off in:
 - (a) The negotiation of the GATT agreement forming part of the Uruguay Round of multilateral trade negotiations that included TRIPs that justified Australia agreeing to patent standards that may not have been in Australia's interests?
 - (b) The negotiation of the AUSFTA that included TRIPs-plus measures that justified Australia agreeing to patent standards that may not be in Australia's interests?
2. Was intellectual property part of the GATT package forming part of the Uruguay Round of multilateral trade negotiations that Australia agreed to knowing that Australia faced higher costs with the expectation that those costs would be offset by a favorable reduction in tariffs and subsidy to agriculture by the most developed nations (such as the United States)?
3. Has an assessment of the proposed patent-related TRIPs-plus measures in the AUSFTA been subjected to an analysis according to the guiding principle of the CPA? If yes, what were the demonstrated benefits of the restriction to the community as a whole that outweigh the costs and what are the objectives of patent privileges that can only be achieved by restricting competition?
4. What are the results of the economic analysis of the effects of the TRIPs-plus measures in the AUSFTA?
5. Does the Australian Government consider that patents are central to an innovation policy? If yes, are patents intended to promote invention or investment in innovation?
6. How are patents more effective at promoting investment in innovation than other policy initiatives, such as a competition policy, tax incentives and so on?