

The Secretary
Senate Community Affairs Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Secretary,

Re: SENATE COMMUNITY AFFAIRS COMMITTEE INQUIRY INTO GENE PATENTS

Please accept a submission to your inquiry about gene patents addressing compulsory licensing under the *Patents Act 1990* (Cth). The most useful contribution your inquiry could make would be to recommend that compulsory licensing be:

- (a) A real incentive to license and work their inventions earlier; and
- (b) Ensure potential compulsory license applicants can structure their affairs so as to avoid the unnecessary expenses pursuing uncertain license grants.

In its present form the compulsory licensing provisions in the *Patents Act 1990* (Cth) are effectively a barrier to the working of inventions in Australia. The attachments set out the justifications for this claim.

If you have any queries about the submission please do not hesitate to contact me.

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Attachment 1

Public Interest Compulsory Licensing under the *Patents Act 1990* (Cth): A Real Incentive or a Barrier to Working?

Abstract

Compulsory licensing of patents under the *Patents Act 1990* (Cth) is asserted to encourage the licensing and working of inventions sooner, serving as an effective incentive for patent holders to grant a licence voluntarily and on their own terms. However, the meaning of the statutory provision is uncertain. This article presents a textual analysis of the provisions to show that the likely meanings are practically uncertain and probably very limited. The article concludes that to be a *real* incentive the provisions need to be revisited by Parliament and recast in meaningful and purposeful text.

Introduction

The present formulation of a “compulsory license”¹ in the *Patents Act 1990* (Cth) (“the *Patents Act*”) traces its origins back through the *Patents Act 1952* (Cth)² and the *Patents Act 1903* (Cth)³ to the first appearance of a uniform provision in the United Kingdom in the *Patents, Designs and Trade Marks Act 1883* (Imp).⁴ The *Patents Act*, s 133 as amended, now provides, in part:

- (1) ... a person may apply⁵ to the Federal Court,⁶ after the end of the prescribed period,⁷ for an order⁸ requiring the patentee to grant the applicant a licence to work⁹ the patented invention.¹⁰

¹ Defined to mean “a license granted under an order made under s 133 [of the *Patents Act 1990* (Cth)]”: *Patents Act 1990* (Cth), sch 1 (“compulsory license”).

² See *Patents Act 1952* (Cth), s 108.

³ See *Patents Act 1903* (Cth), s 87.

⁴ *Patents, Designs and Trade Marks Act 1883* (Imp), s 22. See *Continental Gas Gluhlicht’s Petition* (1898) 15 RPC 727; *Levenstein’s Petition* (1889) 15 RPC 732; *Hulton and Bleakley’s Petition* (1889) 15 RPC 749; *Bartlett’s Patent* (1888) 16 RPC 641. See also Brand O, “The Dawn of Compulsory Patent Licensing” [2007] *Intellectual Property Quarterly* 216.

⁵ The application must include “(i) the name and address of the applicant; and (ii) the address for service in relation to the application; and (iii) the identity of the patent; and (iv) if the applicant relies

...

- (2) After hearing the application, the court may, subject to this section, make the order if satisfied that:
- (a) all the following conditions exist:
- (i) the applicant has tried for a reasonable period, but without success, to obtain from the patentee an authorisation to work the invention on reasonable terms and conditions;
 - (ii) the reasonable requirements of the public with respect to the patented invention have not been satisfied;
 - (iii) the patentee has given no satisfactory reason for failing to exploit the patent; or

on the ground mentioned in para 133(2)(a) of the Act – facts supporting the assertion that the reasonable requirements of the public with respect to the patented invention have not been satisfied; and (iva) if the applicant relies on the ground mentioned in para 133(2)(b) of the Act – facts supporting the assertion that the patentee has contravened, or is contravening, Pt IV of the *Trade Practices Act 1974* [(Cth)] or an application law (as defined in section 150A of that Act) in connection with the patent; and (v) for an innovation patent – the date that the patent was certified”, and “a declaration by the applicant to the effect that the facts in the statement are true to the best of the knowledge of the applicant”: *Patents Regulations 1991* (Cth), r 12.1(2)(a) and (b).

⁶ Noting that an appeal may be open to the High Court: see *Federal Court Act 1976* (Cth), s 33.

⁷ This is “the period of 3 years after the date of sealing of the patent to which the application relates”: *Patents Regulations 1991* (Cth), r 12.1(1).

⁸ Noting that “[a]n order operates, without prejudice to any other method of enforcement, as if it were embodied in a deed granting a license and executed by the patentee and all other necessary parties”: *Patents Act 1990* (Cth), s 133(4).

⁹ The term “‘work’, in relation to a patented invention, means: (a) where the invention is a product – make or import the product; or (b) where the invention is a method or process – use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use”: *Patents Act 1990* (Cth), sch 1.

¹⁰ The chapeau of this subsection was also amended to address certified “innovation patents”: *Patents Amendment (Innovation Patents) Act 2000* (Cth), s 3 and sch 1 (item 66).

This article analyses this provision¹¹ to assess whether the text can address the Australian Government's policy objectives to "promote the efficient use of patents and promote competition"¹² and "incentivise" the licensing and working of inventions sooner.¹³ This is a critical question as compulsory licensing is one of the very few avenues available to limit patent abuse and misuse, and has become (potentially) increasingly important with the lowering of the patent threshold standards of subject matter and obviousness, albeit that some limits to these thresholds still remain.¹⁴ However, to satisfy its policy objectives the meaning of the compulsory licensing provisions should be clear, so that patent holders *really* are "incentivised" to license and work their inventions earlier and potential compulsory license applicants can structure their affairs so as to avoid the unnecessary expenses pursuing uncertain license grants. The article is structured as follows: the next parts address the possible meaning of the text in ss 133(2)(a)(i), (ii) and (iii) respectively. The following part sets out the conclusions that the uncertain meanings of the text impose significant thresholds for evidence (proof), qualifications and discretions. With such uncertainty, prospective applicants are likely to be cautious about incurring the expense in making an application, challenging the Australian Government's contention that compulsory licensing promotes more licensing and the working of inventions sooner. The article

¹¹ There is *no* published textual analysis of these terms, albeit there are assertions that the likely meaning of s 133(2)(a) is uncertain: see, for example, Australian Law Reform Commission, *Genes and Ingenuity: Gene Patenting and Human Health*, ALRC 99 (SOS Printing Group, 2004) pp 617-620 and the references therein. Notably the related Crown use (or government use) provisions, *Patents Act 1990* (Cth), ss 163-170, have recently been considered by Dembo T, "An Examination of the Crown Use Provisions in the Patents Act" (2007) 18 *Australian Intellectual Property Journal* 70 and the "competition test" amendments after the *Intellectual Property Laws Amendment Act 2006* (Cth) have recently been considered by Lawson C, "Compulsory Licensing under the *Patents Act 1990* (Cth) to Remedy Anti-competitive Conduct under the *Trade Practices Act 1974* (Cth)" (2008) *Australian Business Law Review*, in press.

¹² Explanatory Memorandum, *Intellectual Property Laws Amendment Bill 2006* (Senate Printing, 2006) p 1. See also Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (AGPS, 1984) p 28.

¹³ Explanatory Memorandum, above n 12, p 12.

¹⁴ See Lawson C, "*Grant v Commissioner of Patents* and Patenting Knowledge Inventions" (2008) 15 *Journal of Law and Medicine* 626; Lawson C, "Quantum of Obviousness in Australian Patent Laws" (2008) 19 *Australian Intellectual Property Journal* 43.

concludes that for “compulsory licensing” to be a *real* incentive the provisions need to be revisited by Parliament and recast in meaningful and purposeful text.

s 133(2)(a)(i) Tried for an authorisation for a reasonable period on reasonable terms and conditions

The threshold to the *Patents Act*, s 133(2)(a)(i) has elements of (i) trying to obtain an authorisation from the patent holder without success, (ii) that this was tried for a “reasonable period”, and (iii) that the authorisation was sought on “reasonable terms and conditions”. These requirements were originally introduced into the *Patents Act* by the *Patents (World Trade Organisation Amendments) Act 1994* (Cth)¹⁵ and then recast into their present form by the *Intellectual Property Laws Amendment Act 2006* (Cth).¹⁶ The original amendment was necessary to comply with Australia’s commitments to World Trade Organisation’s *Agreement on Trade Related Aspects of Intellectual Property Rights* (“TRIPS”).¹⁷ TRIPS required that Australian laws *only* allow “other use without the authorisation of the rights holder” where:¹⁸

such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time.¹⁹

¹⁵ See *Patents (World Trade Organisation Amendments) Act 1994* (Cth), s 11.

¹⁶ *Intellectual Property Laws Amendment Act 2006* (Cth), sch 8 (items 2 and 3).

¹⁷ See *Marrakech Agreement Establishing the World Trade Organisation* [1995] ATS 8, Annex 1C (*Agreement on Trade Related Aspects of Intellectual Property Rights*) (“TRIPS”), Art 31(b). See also Commonwealth, *Parliamentary Debates*, Senate, 7 November 1994, p 2472 (Rosemary Crowley, Minister for Family Services); Commonwealth, *Parliamentary Debates*, House of Representatives, 18 October 1994, p 2189 (Gordon Bilney, Minister for Development Cooperation and Pacific Island Affairs).

¹⁸ Noting that the “other use” refers to “use other than that allowed under Art 30”, that provides “Members may provide limited exceptions to the exclusive rights conferred by a patent, 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”: see TRIPS, Arts 30 and 31 (footnote).

¹⁹ TRIPS, Art 31(b).

This provision has not yet been interpreted by a binding WTO authority.²⁰ The plain text suggests that unauthorised use of the patent protected products and processes requires prior attempts to obtain a license “within a reasonable period of time” and on “reasonable commercial terms and conditions”. This authorising of non-voluntary uses of patent protected products and processes was included in TRIPS negotiations accepting that non-voluntary authorisations were an appropriate limitation on a patentee’s conferred rights.²¹ However, the scope of authorisation could not be agreed during the negotiation²² and remained controversial (particularly the ground of “non-working”),²³ with a diplomatic resolution being found in a final text focussing instead

²⁰ Notably, in *Brazil – Measures Affecting Patent Protection* (2000) WT/DS199/1 the dispute was resolved before a Panel was engaged by Brazil Government agreeing to consult with the United States Government before issuing a compulsory license over a patent held by a United States resident without accepting that their laws were necessarily inconsistent with TRIPS, Art 31. 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/DS199/4.

²¹ TRIPS Art 28. See also 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 at 4.

²² For an account of the negotiations see Watal J, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer Law International, 2001) p 317; Champ P and A Attaran, “Patent Rights and Local Working under the WTO TRIPS Agreement: An Analysis of the US-Brazil Patent Dispute” (2002) *27 Yale Journal of International Law* 365 at 373-380.

²³ 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, for examples, Wegner H, “Injunctive Relief: A *Charming Betsy* Boomerang” (2006) *4 Northwestern Journal of Technology and Intellectual Property* 156 at 156-170; Yosick J, “Compulsory

on the pre-conditions limiting the authorisation.²⁴ As a consequence, the negotiated text is open to broad, and potentially conflicting, interpretations.²⁵ As a consequence, the interpretation of TRIPS does not yet provide any insight into the likely meaning of the *Patents Act* text.

The phrases “reasonable period” and “reasonable terms and conditions” are not defined in the *Patents Act* or considered in any Australian cases. However, the English cases suggest that “reasonableness”, in the context of the “reasonable requirements of the public with respect to the patented invention” (s 133(2)(a)(ii)), will be considered according to the formulation of Justice Luxmoore in *Brownie Wireless Co’s Application* (1929) 46 RPC 457: “an elastic phrase which can only be construed with certainty with reference to the actual facts of each particular case” (at 473). The reasonableness inquiry would, however, in s 133(2)(a)(i) focus for “reasonable *period*” on the duration and circumstances of the negotiations as opposed to the content of the proffered license, and for “reasonable *terms and conditions*” on the terms and conditions of the proffered authorisation to work the invention. However, the necessary threshold of reasonableness is unclear, and predicting how a court might assess the threshold is presently uncertain.

s 133(2)(a)(ii) Satisfying the reasonable requirements of the public

The threshold for the key phrase “the reasonable requirements of the public with respect to a patented invention” is qualified by the *Patents Act* that provides an exhaustive statement about the content of this requirement. The *Patents Act*, s 135 provides, in part:

Patent Licenses for Efficient Use of Inventions” (2001) *University of Illinois Law Review* 1275 at 1279-1282.

²⁴ 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.

²⁵ As an indication that some interpretation issues remain unresolved, some Members continue to include local working measures in their domestic laws: see Watal, above n 22, pp 317-319. See also Reichman J and C Hasenzahl, *Non-voluntary Licensing of Patented Inventions: Historical Perspective, Legal Framework under TRIPS, and an Overview of the Practice in Canada and the USA*, UNCTAD-ICTSD Project on IPRs and Sustainable Development Issue Paper No 5 (UNCTAD-ICTSD, 2003) pp 13-14.

- (1) ... the reasonable requirements of the public with respect to a patented invention are to be taken not to have been satisfied if:
- (a) an existing trade or industry in Australia, or the establishment of a new trade or industry in Australia, is unfairly prejudiced, or the demand in Australia for the patented product, or for a product resulting from the patented process, is not reasonably met, because of the patentee's failure:
 - (i) to manufacture the patented product to an adequate extent, and supply it on reasonable terms; or
 - (ii) to manufacture, to an adequate extent, a part of the patented product that is necessary for the efficient working of the product, and supply the part on reasonable terms; or
 - (iii) to carry on the patented process to a reasonable extent; or
 - (iv) to grant licences on reasonable terms; or
 - (b) a trade or industry in Australia is unfairly prejudiced by the conditions attached by the patentee (whether before or after the commencing day) to the purchase, hire or use of the patented product, the use or working of the patented process; or
 - (c) if the patented invention is not being worked²⁶ in Australia on a commercial scale, but is capable of being worked in Australia.
- (2) If, where para (1)(c) applies, the court is satisfied that the time that has elapsed since the patent was sealed has, because of the nature of the invention or some other cause, been insufficient to enable the invention to be worked in Australia on a commercial scale, the court may adjourn the hearing of the application for the period that the court thinks sufficient for that purpose.

The construction of this provision suggests that one or more of ss 135(1)(a), (b) or (c) must be established before the reasonable requirements of the public can be taken *not* to have been satisfied. The construction of the similarly formed *Patents Act 1952* (Cth) provision was considered by Justice Menzies in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 and construed as requiring proof of any one of the statutory elements of ss 135(1)(a), (b) or (c) (at

²⁶ The term “‘work’, in relation to a patented invention, means: (a) where the invention is a product – make or import the product; or (b) where the invention is a method or process – use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use”: *Patents Act 1990* (Cth), sch 1.

574).²⁷ The disputed patent concerned improvements to an explosive bolt gun used to fasten materials together, and in particular, “the automatic return of the driving ram from its fired position to its firing position” (at 576). Before the petition was lodged Fastening Supplies had bought and sold similar articles that would have infringed the patent and had been advised to cease the sales and account for the profits by Olin Mathieson (at 577). In response to this, Fastening Supplies then sought a license, but was advised by Olin Mathieson that Ramset (the licensed Australian subsidiary) was its exclusive licensee in Australia, and that it was not prepared to grant a sublicense (at 577-578). In construing the relevant provision (*Patents Act 1952* (Cth), s 110) Justice Menzies said (at 575):

An examination of the circumstances set out in the lettered paragraphs of section 110 suggests that the objects of the compulsory licensing provisions of the Acts cover both (1) fostering Australian manufacturing industry to make the patented article or to use the patented process and (2) ensuring that the Australian demand for the patented article or articles made in accordance with the patented process should be reasonably met whether from local production or from imports. It could, therefore, be that the reasonable requirements of the public would not have been satisfied simply by the importation of enough patented articles to meet the Australian demand ... The circumstance that to foster Australian manufacture is an object of the provisions as a whole might well dictate that in some circumstances a compulsory licence should be confined to the use of the invention for local manufacture and the sale of the products of such manufacture and should not afford the licensee the right to import and sell patented articles.

The meaning of the substance of sections 135(1)(a), (b) or (c) has been considered to some extent by case law in Australia and the United Kingdom. These are now considered.

²⁷ See *Robin Electric Lamp Company's Application* (1915) 32 RPC 202, 213 (Warrington J) considering a similarly constructed *Patents and Designs Act 1907* (UK), s 24 and reaching a similar conclusion about construction. See also *Brownie Wireless Co's Application* (1929) 46 RPC 457, 470 (Luxmoore J); *Cathro's Application* (1934) 51 RPC 75, 80 (Comptroller-General); *McKechnie Bros Ltd's Application* (1934) 51 RPC 461, 466-467 (Luxmore J); *Kamborian's Patent* [1961] RPC 403, 403-404 (Assistant-Comptroller); and so on.

An “existing” or the “establishment of a new” “trade or industry”

The provision variously addresses an “existing” or “establishment of a new” “trade or industry in Australia”. Justice Menzies in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 did not expressly address these terms as they appeared in the *Patents Act 1952* (Cth), s 110(1) although he did make general reference to a “market” for the patented articles without determining the meaning of this term (at 575). However, further insights into the *Patents Act* provisions can be found in United Kingdom authority. Justice Warrington in the UK High Court of Justice in *Robin Electric Lamp Company’s Application* (1915) 32 RPC 202, in considering the *Patents and Designs Act 1907* (UK) s 24(5)(a) provision of “any existing trade or industry, or the establishment of any new trade or industry in the United Kingdom”, stated (at 213-214):

... the expression “trade or industry” seems to me to be used in a wide sense just as we speak of the cotton trade or industry, or woollen trade or industry; so that it is not enough to establish that a particular trade is prejudiced, it must further prove that the trade or industry as a whole is thus affected. So also the establishment of a new trade or industry is, in my opinion, a different thing altogether from the entry of a particular person into an existing trade or industry. It is true that the establishment of a new trade or industry may, and in some cases, must, be the work of one individual, but I think there would be no difficulty in distinguishing such cases from those to which I have referred.²⁸

Later, Justice Luxmoore in the High Court of Justice in *Brownie Wireless Co’s Application* (1929) 46 RPC 457 addressed the *Patents and Designs Act 1919* (UK), s 27(2)(d) phrase “the trade or industry of the United Kingdom” (at 472-477).²⁹ He considered the phrase to “obviously” be “a phrase capable of the most general

²⁸ See also *Brownie Wireless Co’s Application* (1929) 46 RPC 457, 471 (Luxmoore J); *The Co-operative Union Ltd’s Application* (1933) 50 RPC 161, 165-166 (Comptroller-General); *Cathro’s Application* (1934) 51 RPC 75, 83-84 (Comptroller-General) (the latter two cases considering the *Patents and Designs Act 1919* (UK), s 27(2)(d)).

²⁹ Notably, the difference between *Patents and Designs Act 1907* (UK), ss 24 and 27 was that the former addressed patent abuse of trade of the United Kingdom irrespective of what happened abroad, while the latter addressed patent use favoured industry development abroad at the expense of United Kingdom industries: see *Hatschek’s Patents* (1909) 26 RPC 228, 239 (Parker J). See also *Robin Electric Lamp Company’s Application* (1915) 32 RPC 202, 212 (Warrington J).

interpretation” and adopted the meaning articulated by Justice Warrington in *Robin Electric Lamp Company’s Application* (set out immediately above) (at 473).³⁰

Later still, the Assistant-Comptroller in the UK Patent Office in *Kamborian’s Patent* [1961] RPC 403 considered the *Patents Act 1949* (UK), s 37(2)(d)(iii) that used the phrase “the establishment or development of commercial or industrial activities” in the United Kingdom (at 403). The Assistant-Comptroller accepted that “development” meant “any increase in the size of a business, whether it be associated with greater production of one machine or the introduction of a new design of an existing machine” (at 407). Significantly, the Assistant-Comptroller rejected the assertion that the phrase “was not intended to include the continued working of the patent by someone who has been so doing for some time past, but the development must be construed to mean expansion or growth of the activity as a whole in the United Kingdom” (at 407). In the circumstances of that case, the patentee had terminated an existing license and withdrew the offer of a new licence where the petitioner had developed a new model of a machine incorporating the patented invention (at 407). The Assistant-Comptroller concluded that terminating an existing license and withdrawing the offer of a new license was prejudicial to “the establishment or development of commercial or industrial activities” (at 407).

Based on these decisions the phrase “existing” or “establishment of a new” “trade or industry in Australia” might be expected to be broadly determined in the *Patents Act* to mean the trade or industry as a whole, in the sense of “the cotton trade or industry, or woollen trade or industry”.

“Unfairly prejudiced ... trade or industry”

The phrase “unfairly prejudiced ... trade or industry” has not been directly considered in Australia.³¹ In the United Kingdom, the meaning of “unfairly prejudiced” was

³⁰ See also *Cathro’s Application* (1934) 51 RPC 75, 83 (Comptroller-General) considering *Patents and Designs Act 1919* (UK), s 27(2)(d).

³¹ While Justice Menzies in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 did not identify which provision in *Patents Act 1952* (Cth), s 110(1) he was dealing with,

obliquely considered in *Robin Electric Lamp Company's Application* (1915) 32 RPC 202 in the context of the *Patents and Designs Act 1907* (UK), s 24(5)(a) that “any existing trade or industry, or the establishment of any new trade in the United Kingdom is unfairly prejudiced” as a consequence of failing to supply the patented article at all, or on “reasonable terms”. The petitioners argued that the patentee’s offer, in response to the petitioner’s request for a license, to supply drawn tungsten wire, or to manufacture of bulbs, was at an unacceptable high price so as to “unfairly prejudiced” trade or industry (at 214-215). After determining that the scope of the “trade or industry” for drawn tungsten wire precluded the petitioner (at 215), Justice Warrington in the High Court of Justice considered that the supply or manufacture at the price premium would not seriously burden consumers, and that the existing supply of bulbs was sufficient to meet the demands of the public (at 214-215). As a consequence, there was no evidence showing the supply or price was so unreasonable that it might be said to satisfy the threshold of “unfairly prejudiced”, albeit that there might be some “prejudice” (at 215).

Later in *Brownie Wireless Co's Application* (1929) 46 RPC 457 the petitioner was a United Kingdom manufacturer of an amplifier that was compatible with crystal and valve radio sets, and wanted to expand their operations to manufacturing valve sets that would have infringed some existing valve patents (at 467-468). These patents were already widely licensed with about 1000 of the 2300 license granted in the general form that was offered to the manufacturer (at 475 and 468). The petitioner argued that a proffered license unfairly imposed a royalty on non-patented articles that would prejudice trade (at 471). The argument concerned the *Patents and Designs Act 1919* (UK), s 27(2)(d) that by “the refusal of the patentee to grant a license on reasonable terms the trade or industry of the United Kingdom or the trade of any person or class of persons trading in the United Kingdom ... is prejudiced”. The proffered but rejected license had been found to be reasonable on the basis of efficiency, in that that the broader market for the patented invention was not unreasonably affected (at 476). The prejudice argument was also then rejected, Justice Luxmoore saying (at 478):

it seems likely that he was addressing ss 110(1)(a)(i), 110(1)(a)(ii) and 110(1)(c), and very unlikely that he was dealing with ss 110(1)(a)(iii) and 110(1)(b) that dealt with “unfairly prejudiced”.

This is really an objection to the reasonableness of the license, and I have dealt with this. It cannot, I think, be a ground for holding that the applicant's trade will be prejudiced by a refusal to license because, unless a license is granted, the ground of objection cannot possibly arise. It is admitted that the [applicant] is not proposing to establish a new trade or industry. Further, the [applicant] is not seeking the license to enable it to work some patent of its own, nor is it proposing to produce some essentially new article, patented or unpatented. All that the [applicant] desires to do is enter the trade or industry of manufacturing valve receiving sets. The trade generally cannot be prejudiced by the refusal of the license, and it is impossible to say that the [applicant's] existing trade is prejudiced by the refusal.

The phrase “unfairly prejudiced” was again considered in *Kamborian's Patent* [1961] RPC 403 in the context of the *Patents Act 1949* (UK), s 37(2)(d)(iii) that “the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced” (at 406-407). The applicants sold their interest in a company with the patent holder that had an exclusive license to work the patent and then took an exclusive sub-license over the patent (at 404). The applicant manufactured the patent protected machines including making some developments towards a new model of the machine (at 404). The patent holder subsequently terminated this exclusive sub-license, offered a new non-exclusive license, and then withdrew that offer (at 404). The patent holder later sub-licensed another company that manufactured the patented machines (at 404). In considering “unfairly prejudiced”, the Assistant-Comptroller opined that in withdrawing the offer, and in effect refusing to license on any terms, the applicants had been prejudiced by being deprived of the right to manufacture at all (at 406). The question was whether this was “unfair” (at 407). The applicants asserted that the refusal to grant a new license after their considerable expenditure (£10, 000) amounted to “unfair prejudice” (at 407). In rejecting this contention, the Assistant-Comptroller considered that the termination of the former license was “legal” and not “capricious”, and was merely a commercial risk that the applicants must have appreciated when making their expenditures before securing a license – “an ordinary business risk with full knowledge of the possible consequences” (at 407). In such circumstances the refusal did not “unfairly” prejudice the “development of commercial or industrial activities in the United Kingdom”, although it did constitute a “prejudice” (at 407).

Unfortunately, each of the cases rejects an assertion of “unfair prejudice” providing no insight into where that threshold of “unfair” might rest. However, these cases do suggest that the threshold is likely to be substantial, and merely adversely affecting a trade or industry is not sufficient. Perhaps importantly, this is consistent with, in modern parlance, the elements of a “market”. In *Robin Electric Lamp Company’s Application* (1915) 32 RPC 202, *Brownie Wireless Co’s Application* (1929) 46 RPC 457 and *Kamborian’s Patent* [1961] RPC 403 the petitioners and applicant were attempting to enter an existing market for the patent protected product, and the decisions were directed to determining whether the “prejudice” was “unfair”, focussing on that broader market, as opposed to the petitioners and applicant. In each case, individual unfairness through a too high price (*Robin Electric Lamp Company’s Application* and *Brownie Wireless Co’s Application*) or refusing to license at all (*Kamborian’s Patent*) was apparent, but broader “market” unfairness was absent.

“Reasonable terms”

The requirement for “reasonable terms” arises in the *Patents Act* context of supplying the “patented product”, or “a part of the patented product that is necessary for the efficient working of the product”, and granting licenses.³² Justice Menzies in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 considered the provision in the *Patents Act 1952* (Cth), s 110(1) that “[t]he reasonable requirements of the public shall be deemed not to have been satisfied: (a) if, by reason of the default of the patentee: (i) to manufacture to an adequate extent, and supply on reasonable terms, the patented article”. The applicant sought a license and the patentee refused, with its Australian exclusive licensee eventually making the bolt gun available by the time of the hearing (at 582). Justice Menzies found that the “reasonable requirements of the public” were not satisfied at the application date (at 577) although they were by the hearing date (at 582). Presumably, a failure to supply and license *at all* would have satisfied the threshold requirement of “reasonable terms” under the *Patents Act 1952* (Cth). However, where the threshold might lie were some terms are proffered is uncertain. The United Kingdom cases again provide some insights.

³² *Patents Act 1990* (Cth), s 135(1)(a)(i), (ii) and (iv).

In *Robin Electric Lamp Company's Application* (1915) 32 RPC 202 the phrase “reasonable terms” arose in the context of the *Patents and Designs Act 1907* (UK), s 24(5)(a) providing: “if by reason of the default of the patentee to ... supply on reasonable terms the patented article, or any parts thereof which are necessary for its efficient working ... or to grant licenses on reasonable terms” (at 213). The petitioners argued that the eventual offer to supply the drawn tungsten wire for the incandescent bulbs at a price greater than charged abroad, and that would more than double the purchase price of the bulbs, was unreasonable (at 213). In rejecting this proposition, Justice Warrington does not appear to have considered that the price was unreasonable, although “no attempt” was made to show the asking price was unreasonable (at 215). The determinative point, however, was that the price requested of the petitioners was to be assessed “from the public point of view”, and not the individual perspective of the petitioners (at 215-216). From this perspective, the issue was framed as whether the term was “unreasonable” from the perspective of a broader “market”, rather than the individual applicant.

In *Brownie Wireless Co's Application* (1929) 46 RPC 457, in the context of the *Patents and Designs Act 1919* (UK), s 27(2)(d) “by reason of the refusal of the patentee to grant a license on reasonable terms”, a United Kingdom manufacturer of an amplifier that was compatible with crystal and valve radio sets wanted to expand their operations to manufacturing valve sets that would have infringed some existing valve patents (at 467-468). Recall these patents were already widely licensed and a further license was offered to the manufacturer according to a general form used by the patent holder, although that form was not universally used (at 468). Further, about 1000 of the 2300 license already granted were in the general form (at 475). In response to the failed attempts to obtain a license the manufacturer sought a compulsory license arguing that the proposed terms were not reasonable (at 472). In addressing this point, Justice Luxmoore said (at 473):

The grant of the license which is refused must be a grant “on reasonable terms”, an elastic phrase which can only be construed with certainty with reference to the actual facts of each particular case. No one can hope to lay down any exhaustive rules to enable the question whether the terms of a proposed license are reasonable or not to be answered with certainty in every case. The answer to the question must in each case depend on the careful consideration of all the surrounding

circumstances. The nature of the invention covered by the patent, the terms of the licenses (if any) already granted, the expenditure and liabilities of the patentee in respect of the patent, the requirements of the purchasing public, and so on.

Applying this consideration to the facts, Justice Luxmoore considered each of the manufacturer's contentions of unreasonableness: that the royalty was too high; that the license were not offered for particular patents, only the whole group of patents; that the license tied the sale of valves to only those valves manufactured by a subsidiary of the patent holder; that the export or sale for export of a product made under the license was prohibited, and potentially included non-patented articles; and that the royalties applied to every appliance sold by the licensee irrespective of whether or not it contained the patented product(s) (at 475). Justice Luxmoore considered the evidence showed that the other 1000-odd general form licensees were prepared to pay the requested royalty and this was sufficient to show that the proffered royalty was reasonable (at 475-476). A similar conclusion also applied to each of the manufacturer's other contentions (at 478). In addition, Justice Luxmoore considered that it was efficient for the patent holder to impose royalties over the group of patents (at 476), that the tying arrangement related to sales and not manufacture, and so it was reasonable to impose restrictions tying the manufacture of valves (at 476-477), that restricting export of patented articles was reasonable even where they were to be exported to jurisdictions where no such patent rights applied (at 477),³³ and finally, that applying the royalty to non-patented articles was reasonable because such as restraint was a "common occurrence", and not greater than the privilege conferred (at 477). Justice Luxmoore further considered that it was entirely reasonable for a patent holder to impose the royalty on closely related articles as an efficient way of ensuring the royalty was paid on the patented products (at 477-478). The final

³³ There appears to be some confusion in the judgment on this issue as before the Comptroller there was some uncertainty about the construction of the license provision and whether it dealt with non-patented articles that were covered by the license. Justice Luxmoore glossed over this issue saying: "I see no substantial ground for any such doubt. The clause expressly relates to "Any apparatus made hereunder," and I can see no possible ground for extending these words beyond their natural meaning, "apparatus made under this license," that is in accordance with the patents the subject of the license". See also *Penn Engineering and Manufacturing Corporation's Patent* [1973] RPC 233, 241 (Graham J).

conclusion was that the terms of the proposed general license were reasonable and the application for the compulsory license was refused (at 478).

Dealing with similar patents, *Loewe Radio Company's Application* followed immediately after *Brownie Wireless Co's Application* (1929) 46 RPC 457 under the same *Patents and Designs Act 1919* (UK), s 27(2)(d). Here the so-called “Valve patents” and “Circuit patents” concerned broadcast loud speaker receiving sets (at 484). By the time of the application some 1000 general form license (the same license addressed in *Brownie Wireless Co's Application*) had been made for the Circuit patents (at 484). Meanwhile, the Valve patents were licensed differently, with each license detailing specific arrangements (at 485). The applicants manufactured wireless apparatus with “new and special features” that would have infringed the Valve patents and Circuit patents in the United Kingdom (at 485). Again the patent holder entered into negotiations and would only license a suite of patents instead of the specific patents the applicants had identified, and only if the applicant was not a party to an action that was challenging the validity of the patent holder's patents (at 486-489). At this stage the applicants broke off negotiations and sought a compulsory license asserting that there had been a refusal to license, or alternatively, that the proposed conditions were unreasonable (at 489). Justice Luxmoore concluded that there had been no refusal, and that it was premature to assert unreasonable terms as no terms were ever discussed before negotiation broke down from the applicant's side (at 490). While providing no insight into what terms might be reasonable, the decision shows there must actually be an attempt at negotiation. The later decision in *Hamson & Son (London) Limited's Application* [1958] RPC 88, however, considered evidence of attempts by various parties to enter into a license agreement (at 89). The Comptroller-General concluded that a failure to complete an agreement despite various parties being “willing and anxious”, and some evidence that the failed negotiations were the result of unreasonable terms of payment, was all that was necessary (at 89-90).

Later in *Cathro's Application*, in the context of the *Patents and Designs Act 1919* (UK), s 27(2)(c) that “the demand for the patented article in the United Kingdom is not being met ... on reasonable terms”, the Comptroller-General opined that (at 82):

I think in the first place that the expression “on reasonable terms” ... refers mainly to the price charged for the patented article, and I am fortified in this view by a consideration of the summary of the kinds of abuses dealt with by s 27 given by Mr Justice Luxmoore in *Brownie Wireless Co’s Application* where the reference to “excessive price” clearly refers to the abuse covered by para (c). No doubt, however, this statement of the learned judge should not be considered to be exhaustive as to the scope of the paragraph, and it may be that in some cases other terms than those referring merely to price should be taken into account.

In the particular circumstances, the applicant had argued that demand for the so-called “Hull patent” was not being met on reasonable terms because “there are not available in this country [the United Kingdom] valves of the American type manufactured here [the United Kingdom] under the patent” (at 82). In rejecting this argument, the Comptroller-General considered that even though the particular demands for American type valves manufactured in the United Kingdom according to the Hull patent were not being met on “reasonable term”, the demand was being “sufficiently met” by American manufactured American type valves according to the Hull patent (at 82). In dealing with the so-called “Mitchell patent”, whose efficient construction would fall within the Hull patent (at 84), there was no evidence to show an unmet demand, so there was no question as to whether the terms were reasonable (at 85). In other words, demand can be satisfied by importation, and the reasonableness requires evidence and not merely assertions.

Evidence addressing “reasonable terms” was considered in *Kamborian’s Patent* [1961] RPC 403, in the context of the *Patents Act 1949* (UK), s 37(2)(d)(iii) provision that “by reason of the refusal of the patentee to grant a licence or licences on reasonable terms” the “establishment or development of commercial or industrial activities in the United Kingdom [wa]s unfairly prejudiced” (at 405). The applicant asserted that the proffered royalty was too high at 33 $\frac{1}{3}$ % of the selling price (at 406).³⁴ In rejecting this assertion, the Assistant-Comptroller noted that there was no evidence that the resulting selling price would have been prohibitive (at 406). Further, even though this royalty might have been too high given that the new license was to be non-exclusive, the Assistant-Comptroller was “not satisfied that the royalty asked [wa]s so high as to be unreasonable” (at 406). The applicant also asserted that it was

³⁴ See also *Monsanto’s CCP Patent* (1990) FSR 93, 100 (Superintending Examiner).

unreasonable to impose a royalty (15% of the selling price) after the patent term expired because they would be at a disadvantage compared to competitors manufacturing without the royalty (at 406). The Assistant-Comptroller rejected this assertion, considering that a competitor “would have to spend time and money in tooling up, and, if he had no machine in his possession, in developing a practical embodiment of the machine described in the patent specification” (at 406).

In short, *Robin Electric Lamp Company's Application* (1915) 32 RPC 202 and *Brownie Wireless Co's Application* (1929) 46 RPC 457 both take a broader approach to “reasonableness”, considering the range of circumstances and their effect on that broader “market”, and in the case of *Brownie Wireless Co's Application* addressing the likely efficiency of particular terms from the perspective of the patent holder in dealing with that broader “market”. Importantly, *Kamborian's Patent* [1961] RPC 403 establishes that the assertions of unreasonableness required actual evidence.

“Adequate extent”

In addressing the similarly worded provision in the *Patents Act 1952* (Cth), s 110(1)(a), that “to manufacture to an adequate extent, and supply on reasonable terms, the patented article, or a part of the patented article which is necessary for its efficient working” and “to grant licenses on reasonable terms ... the demand for the patented article, or the article produced by the patented process, is not reasonably met”, Justice Menzies in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 said (at 575):

As to the construction of s 110(1)(a), I am of the opinion that the demand for the patented article has not been reasonably met if the Court should be satisfied that, because of its superiority over articles already on the market, potential purchasers would have bought it had it been available. A market for a less efficient article indicates, other things being equal, a market for a more efficient article.

Justice Menzies was satisfied on the evidence that at the time the petition was lodged that the reasonable requirements of the public with respect to the patented article had not been satisfied: “[n]one [of the guns] had been available to the public despite a potential demand which became actual as soon as the articles made in accordance

with the invention became available to the market” (at 577). Further, “despite the imperfections of earlier tools made by Olin Mathieson, more could reasonably have been done by Ramset importing tools made in accordance with the patent to meet the Australian demand therefor” (at 582). Justice Menzies also concluded that the production established by Ramset after the application was lodged and before the hearing would meet the reasonable requirements of the public for the patented articles (at 583). Although interestingly, the supply does not appear to have been sufficient to saturate the actual market: “[i]n April 1969 the first products of this manufacture, guns called Ramset Model 4160, were put on the market in Victoria. The whole production to date, ie six hundred, has been sold. It is anticipated that by 30th June 1970, Ramset would have manufactured and sold two thousand guns” (at 577).

The United Kingdom cases might provide some further insights here. *Hatschek’s Patents* addressed the *Patents and Designs Act 1907* (UK), 27(2) that provided, in part, for the revocation of a patent that was not being worked in the United Kingdom to an “adequate extent”, unless there was a satisfactory reason justifying why the patent was not being worked (at 241-243).³⁵ The patent concerned a process for manufacturing thin imitation stone slabs or tiles (at 247). Justice Parker commented that the term “adequate” was “elastic” and that it’s meaning “depend[s] largely on the point of view from which the facts which may have been proved are considered” (at 241). However, he proffered some “observations” (at 242 and 243):

I do not think the extent to which the article is manufactured, or the process carried on, can be considered adequate if it be less than it would have been, but for the fact that the patentee has exercised the rights conferred by his patent to the hurt of British industry, for example the fact that he has given foreign traders a preference over British traders ... It is therefore the conduct of the patentee which is in question. Has he done anything which he ought not to have done, or omitted to do anything which he ought to have done, having regard to his obligations towards the traders of this country [the United Kingdom]? ... I agree that the demand and supply in this country are to be considered, though they are not the only facts to be considered upon the question of adequacy. If there was insufficient manufacture here to meet the demand for the home-made article, it might well be that the manufacture might be held to be inadequate, but, even if there was no demand here at all, the manufacture might be inadequate because the rights of the patentee might have been exercised as to preclude the growth of a demand by the imposition of unreasonable prices or

³⁵ See also *Bremer’s Patents* (1909) 26 RPC 114 (Comptroller-General).

unreasonable terms for licenses, or simply because the patentee had wholly neglected this country in his efforts to develop foreign trade. Every case must be considered on its own merits and with reference to its own attendant circumstances.

Justice Parker accepted the evidence that the patent was being worked abroad but not in the United Kingdom, and that the British patent had been obtained so as to licence a seller of the foreign manufactured slabs or tiles and not for the purpose of establishing a new industry in the United Kingdom (at 247).³⁶ In those circumstances, the United Kingdom working was inadequate (at 247). Further, as there was no satisfactory reason for this inadequate working (discussed below), the decision of the Comptroller to revoke the patent was upheld (at 247-248).

In *Robin Electric Lamp Company's Application* (1915) 32 RPC 202 Justice Warrington addressed the phrase “if by reason of the default of the patentee to manufacture an adequate extent ... the patented article, or any parts thereof” in the *Patents and Designs Act 1907* (UK), 24(5) (at 213-214). Justice Warrington considered that (at 213):

Mere default to supply the patented article or to grant a license to an individual would not, in my opinion, necessarily amount to default to supply the patented article or to grant licenses. There may well be an adequate supply of the patented article to satisfy the requirements of the public, or the patentee may have granted an adequate number of licenses on reasonable terms to satisfy the same requirements, and in that case his refusal to supply or grant a license to a particular person would not be a default within the meaning of the section. It seems to me, therefore, that, in order to establish a case within the section, the petitioner must prove not only default towards himself, but default towards the public generally, or that part of it which is interested in the matter in question.

The petitioner sought a license to use patents over drawn tungsten wire in their improved two element incandescent light bulbs (at 214). The patent holder offered to manufacture the bulbs incorporating the improvement but imposed conditions of minimum list prices on the sale of bulbs (at 214). In response the petitioners sought the supply of the tungsten wire (at 214). This was declined with an offer to

³⁶ Another argument might be that the manufacture abroad itself hinders the working in the United Kingdom: see, for example, *Fabricmeter Co Ltd's Application* (1936) 53 RPC 307, 314 (Comptroller-General).

manufacture (at 214). In response, the petitioners sought a license to manufacture the tungsten wire, and with the threat of the petition the wire was offered for sale to the petitioners, the wire was offered at a price that was greater than abroad, and would have more than double the purchase price of the bulbs (at 214). Justice Warrington considered that just because the petitioners had been denied the wire was only part of the evidence required, and that they had not shown that “from the public point of view” the supply was inadequate: “it is common ground that license have been granted” showing that others could supply the broader public (at 215).

Later in *Cathro’s Application* (1934) 51 RPC 75 a compulsory license was sought for patents for screen grid thermionic valves under the *Patents and Designs Act 1919* (UK), 27(2)(c) alleging an abuse of monopoly that “the demand for the patented article in the United Kingdom is not being met to an adequate extent and on reasonable terms” (at 77 and 81). The applicant sought the license only to manufacture in the United Kingdom valves that were then being imported from abroad (at 77). The patents covered valves for so-called “American-type receiving sets” that could not be used in “British-type receiving sets”, because the contact pins did not fit into the sockets, the contacts were different, the heating filaments were different, and some of the electrical characteristics were different (at 80-81). The applicant essentially wanted to manufacture the valves for the “American-type receiving sets” locally, and to supply the replacement parts market in the United Kingdom and its colonies (at 80). The applicant argued, in part, that the demand for the patented article in the United Kingdom was not being met to an adequate extent (and on reasonable terms) “because there are not available in this country [the United Kingdom] valves of the American type manufactured here under the patent”: “[w]hat is said is that [the demand for the patented article] is not being met upon reasonable terms because a purchaser who desires a valve of the American type but of English manufacture is unable to obtain such a valve” (at 82). The Comptroller-General considered that the *actual* demand rather than a *possible* demand was relevant,³⁷ and rejected the applicant’s contention (at 82-83):

³⁷ The applicant having asserted that they were proposing to manufacture for the United Kingdom and for export to the colonies or dominions, although they did not have an existing arrangement to supply the colonies or dominions: at 82-83.

I do not think it can be said that the demand for the patented article is not being met to an adequate extent and on reasonable terms merely because although the main demand for the patented valve by users in this country is being sufficiently met, a subsidiary demand on the part of persons who have bought receiving sets which they must in many or most cases have known to be of American manufacture, or at all events of American type, cannot be met by valves of British manufacture.

Then in *Kamborian's Patent* [1961] RPC 403, in the context of *Patents Act 1949* (UK), s 37(2)(b) that “that a demand for the patented article in the United Kingdom is not being met on reasonable terms”, the applicant asserted that the price was too high because of the unreasonably royalty (at 405). The Assistant-Comptroller considered that this needed to be assessed from the perspective of “what the customer is prepared to pay” (at 405). There was no evidence proffered of customer dissatisfaction, and there was evidence that the amount actually paid (£185) had remained the same even though the cost of the machine had increased (from £557 to £795), and there was evidence of increasing sales (at 405). As a consequence, the Assistant-Comptroller concluded that the demand was being met on reasonable terms (at 406).

Again, it is the broader “market” that must be supplied to an “adequate extent” by the manufacture of the patented product or patented part of the product and this is to be assessed from the conduct of the patent holder (or their licensee or assignee). Justice Menzies in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 appears to articulate a test of substitutability (at 575), so that adequacy is most probably properly assessed according to whether potential purchasers are able to chose the patented product or patented part of the product in preference to another product. However, the supply does not need to saturate the market leaving considerable uncertainty as to how much supply is adequate.

“Unfairly prejudiced by conditions”

The phrase “unfairly prejudiced by conditions” has not been addressed in Australia. Unfortunately, this provision is only obliquely addressed in the United Kingdom cases. Justice Luxmoore in *Brownie Wireless Co's Application* (1929) 46 RPC 457 had decided that: “[i]n my view the learned Comptroller was right in his view of the construction to be placed on” the related provision, the *Patents and Designs Act 1919*

(UK), s 27(2)(e) (at 472), and the Assistant-Comptroller in *Fette's Patent* [1961] RPC 396 did not consider the similar provision in the *Patents Act 1949* (UK), s 37(2)(e), having reached a conclusion on other grounds (at 401). However, in *Hamson & Son (London) Limited's Application* [1958] RPC 88 the Comptroller-General dealt, in part, with the *Patents Act 1949* (UK), s 37(2)(e) that “by reason of the refusal of the patentee to grant a licence or licences on reasonable terms ... the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced” (at 90). The invention was being worked in France and Germany under license and the applicant asserted that they could work the invention, and that it was in the public interest that they be allowed to work the invention in the United Kingdom (at 88). The patentee opposed the application on the basis, in part, that negotiating with the applicant would prejudice current negotiations with another firm better equipped to work the invention in the United Kingdom (at 88-89). The applicant's and others had tried to enter into negotiations and the evidence suggested, and was accepted by the Comptroller-General, that the patentee's proposed terms of payment were unreasonable (at 89-90). In deciding to grant a compulsory license the Comptroller-General had to weigh the prospects of the applicant being able to work the invention (at 90). The Comptroller-General concluded, even though the applicant needed to procure premises and capital: “I feel that unless the applicants are given the opportunity by the grant of a license it is unlikely that the invention will be commercially worked in the United Kingdom in the foreseeable future” (at 90). As a result of the conclusion, the Comptroller-General appears to have concluded that the “unreasonable” terms in the license were preventing the invention being exercised in the United Kingdom, and that this exercise was in the “public interest”. Whether this goes to “unfairly prejudiced” or some other ground is unclear, although other grounds might more comfortably address this conclusion.³⁸ Further, important considerations such as the broader “market” were not considered, whether the United Kingdom was being supplied with the patented invention, and so on. In short, the phrase “unfairly prejudiced” might be expected to be used in the same sense within the same provision, and the kinds of consideration applying to the phrase in those other places

³⁸ For example, the *Patents Act 1949* (UK), s 37(2)(a) that “that the patented invention, being capable of being commercially worked in the United Kingdom, is not being commercially worked therein or is not being so worked to the fullest extent that is reasonably practicable”.

(such as *Robin Electric Lamp Company's Application* (1915) 32 RPC 202, *Brownie Wireless Co's Application* (1929) 46 RPC 457 and *Kamborian's Patent*) do not appear to have been taken into consideration. Put simple, the cases addressing this text are unclear, leaving considerable scope for speculation about the necessary threshold and relevant evidence.

“Not being worked”, “commercial scale” and “capable of being worked”

Perhaps the first limitation to address is that the current *Patents Act* is limited to the “patented invention is not being worked”.³⁹ The term “work” is then defined to mean “make or import the product”, “use the method or process” and “make or import” the product of the “method or process”.⁴⁰ This is significantly narrower than the other essential elements of a patentee’s “exclusive rights” does not include “hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use ... it, or keep it for the purpose of doing any of those things”.⁴¹ Importantly, the term “worked” is further limited by the requirement that the working must be on a “commercial scale”. That is, a patent holder making or importing a patent protected product will only be captured by this provision if the making or importing is not “on a commercial scale”.

While there are no Australian decisions directly addressing this provision in the *Patents Act*, Justice Menzies in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 considered a similarly worded provision in the *Patents Act 1952* (Cth), s 110(1)(c) that “if the patented invention, being an invention capable of being worked in Australia, is not being worked on a commercial scale” (at 572). Justice Menzies found on the evidence that the bolt guns were not being manufactured and sold in Australia at the date of the application, and this appears to have been sufficient for Justice Menzies to conclude that “[t]here is no doubt in my mind that when the petition was lodged ... the reasonable requirements of the public with respect to the patented article had not been satisfied” (at 577). On the facts, it seems likely that the delay in manufacture that was sufficient for Justice

³⁹ *Patents Act 1990* (Cth), s 133(1)(c).

⁴⁰ *Patents Act 1990* (Cth), sch 1 (“work”).

⁴¹ See *Patents Act 1990* (Cth), s 13(1) and sch 1 (“exploit”).

Menzies to conclude that there was a satisfactory reason for failing to work the invention until after the application date also established that the invention was *not* “capable of being worked in Australia” (at 579).

The United Kingdom cases provide some further insights. In *Levenstein’s Petition* [1989] 15 RPC 732, in the context of the *Patents, Designs and Trade Marks Act 1883* (Imp), s 22(a) that “the patent is not being worked in the United Kingdom”, a United Kingdom company sought and was refused a licence to work patents in the United Kingdom for the manufacture of chemical dyes (at 732-737). The petitioners argued that they required the licence to work some of their own patents, that the patent for which they sought licenses were only offered on terms that were unacceptable to the petitioners, and that the patents were not being worked by the United Kingdom (at 742). The Board of Trade ordered a compulsory license appearing to accept the argument before the referee that there was no working of the patent in the United Kingdom, even though the patent holder was prepared to sell the patent protected product (at 741-742). The uncomplicated question was simply one of evidence: was the patent being worked in the United Kingdom? The same meaning has been adopted in later cases,⁴² and was also the form of analysis in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 at 577. The more complex question is the meaning of working on a “commercial scale” and “capable of being worked”.

In *Fette’s Patent* [1961] RPC 396, in the context of the *Patents Act 1949* (UK), s 37(2)(a) that “that the patented invention, being capable of being commercially worked in the United Kingdom, is not being commercially worked”, the Assistant Comptroller considered an application where the applicant’s had sought a license before the patent was granted without success, and then tried again some six years later (at 397-399). The invention was for “devices forming screw threads on work-pieces by a rolling operation” (at 396-397). The reason for the breakdown in negotiations was contested (at 397). The applicant’s then offered a royalty of 5% on the thread rolling die heads and spare parts and 1% on the rolls before applying for a

⁴² See, for examples, *Cathro’s Application* (1934) 51 RPC 75, 85 (Comptroller-General); *Fette’s Patent* [1961] RPC 396, 398 (Assistant Comptroller).

compulsory license (at 397). After the application was lodged the patentee rejected the applicant's offer saying the royalty was too low, even though they were keen for the applicant to manufacture their devices, and they sought a minimum license fee and a royalty term "valid for 10 years after the expiry of the last patent" (at 397-398). The applicant and patentee counter offered but were unable to agree on terms (at 398). Importantly, a license had been granted in the United Kingdom and continued in existence even though only one device in one of many possible types and sizes had been manufactured up to the date of the hearing (at 398). This was sufficient to establish that the invention was "capable of being commercially worked in the United Kingdom" (at 399).

Later in *Enviro-Spray System Inc's Patent* [1986] RPC 147, in the context of the *Patents Act 1977* (UK), s 48(3)(a) that "where the patented invention is capable of being commercially worked in the United Kingdom, that it is not being so worked", a superintending examiner considered that "commercial working" had "its plain and ordinary meaning" and was satisfied "by the straightforward manufacture of goods for trade" (at 153). The superintending examiner, however, accepted that the language of "working on a commercial scale" in the *Patents Act 1919* (UK), s 27(2)(a) that was considered in *McKechnie Bros Ltd's Application* (1934) 51 RPC 461 was different and not equivalent, and that in the *Patents Act 1977* (UK) "commercial working" might include "research work or work in a laboratory" (at 153). As a consequence, the working of the invention on a small scale in the United States followed by ceasing that working was sufficient for the superintending examiner to accept that the invention was not being worked in the United Kingdom, but was capable of being commercially worked in the United Kingdom (at 153).

More recently in *Monsanto's CCP Patent* (1990) FSR 93 in the context of the same *Patents Act 1977* (UK) provision, the question was specifically whether the patented invention was capable of being commercially worked (at 98). The invention concerned solvents used in making marks on carbonless copy paper. There the applicant wanted to supply the patented product and had identified a potential customer (at 95). That customer would not agree to consider purchase, however, until the pending infringement proceedings were resolved or a license had been awarded (at 95). The superintending examiner was uncertain whether these circumstances were

sufficient as there was no direct evidence from the potential customer that the invention was capable of being commercially worked in the United Kingdom (at 99).

In short, the terms “not being worked”, “commercial scale” and “capable of being worked” require evidence both of the nature of working (in the sense that term has been defined) and the extent of the working. Where there is no working, evidence establishing a patent is “capable of being worked” will be necessary. As the decision in *Monsanto’s CCP Patent* shows, this may be a difficult threshold to satisfy.

s 133(2)(a)(iii) No satisfactory reason for failing to exploit

The term “satisfactory reason” is not defined in the *Patents Act*. Justice Menzies in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 considered the phrase in the *Patents Act 1952* (Cth), s 110(1)(c) “if the patented invention ... is not being worked in Australia on a commercial scale and *no satisfactory reason* is given for the non-working” (emphasis added). The accepted facts were that when the petition was lodged the patented explosive bolt gun was not available to the public despite potential demand (at 577). In determining whether the reason for not working the invention in Australia was reasonable, Justice Menzies considered the patent holder’s detailed reasons for the delayed manufacture and sale of the patented tools at the time of the hearing (at 578-580). The reasons included that non-working in Australia “was not due to a lack of concern about the Australian market” or “lack of desire to meet the requirements of that market from its own manufacture in Australia” (at 578), that there were difficulties in designing a tool that could be made economically in Australia (at 578), that there was a reasonable decision to defer manufacture until a suitable tool for the Australian market could be manufactured (at 578), that twenty one different patented tools were imported, field tested, and found to be unsatisfactory (at 578-579), that local manufacture was “a major manufacturing undertaking not to be entered upon lightly” until a suitable tool had been developed (at 579), and that there had been constant work developing a suitable tool for Australia (at 579-580). The accepted evidence also established that the manufacture undertaken after the petition was lodged was “in the process of meeting Australian requirements [with] the capacity to do so”, and was “not merely a belated response to the petition for a compulsory licence” (at 580). However, despite these findings, Justice Menzies did consider that “despite the imperfections of earlier

tools ... more could reasonably have been done by ... importing tools made in accordance with the patent to meet the Australian demand” (at 582). Perhaps the decision suggests that at the time the petition was lodged the reasons for failing to work the invention were not satisfactory, and that by the time of the hearing the patent was being “worked on a commercial scale” so that there was no longer a requirement to consider whether there was “no satisfactory reason” for non-working.

Again, the United Kingdom cases may provide some insights. Justice Parker in *Hatschek’s Patents* (1909) 26 RPC 228 addressed the *Patents and Designs Act 1907* (UK), s 27(2) that provided, in part, for the revocation of a patent that was not being worked in the United Kingdom to an adequate extent, unless there was a “satisfactory reason” justifying why the patent was not being worked (at 241).⁴³ The patent concerned a process for manufacturing thin imitation stone slabs or tiles (at 247). In addressing the broad policy of the provision, Justice Parker commented that the term “satisfactory” was “elastic” and that its meaning “depend[s] largely on the point of view from which the facts which may have been proved are considered” (at 241). In declining to then define the term, Justice Parker made the “general observations” that (at 241):

I do not think any reason can be satisfactory which do not account for the inadequacy of the extent to which the patented article is manufactured or the patented process is carried on in this country by causes operating irrespective of any abuse of the monopoly granted by the patent. The first thing therefore, for the patentee to do is, by full disclosure of the manner in which he has exercised his patent rights, to free himself from all suspicion of having done anything to hamper the industry in the United Kingdom. When once he has satisfied the Comptroller of this, he will have gone a long way towards proving what he has to prove, and even if he cannot prove adequacy, he ought to be able to show satisfactory reasons for inadequacy ... It is therefore the conduct of the patentee which is in question.

In the circumstances of the case, it was also argued that compulsory licensing was not only to secure fair play for United Kingdom traders but also to give them preference so that they did not have to compete against foreign traders (at 242). Justice Parker rejected this argument saying that if Parliament had intended such protectionist (and

⁴³ See also *Bremer’s Patents* (1909) 26 RPC 114 (Comptroller-General).

anti-free trade) policies, then the legislation would have clearly expressed such a sentiment (at 242). As such, the policy of compulsory licensing was to secure fair play between United Kingdom and foreign industries (at 241-242). On the facts accepted by Justice Parker the patent was being worked abroad but not in the United Kingdom (at 247). Further, the United Kingdom patent had been obtained so as to licence a seller of the foreign manufactured slabs or tiles and not for the purpose of establishing a new industry in the United Kingdom (at 247). There was no evidence of relative costs of wages, materials, different condition, and so on, “which points to the economic impossibility of such an industry having grown up in the United Kingdom if no preference had been conferred on foreigners” (at 247). As there was no satisfactory reason (“[i]n my opinion a new industry might have arisen in this country but for the manner in which the patentee has exercised his patent rights”) (at 247), the decision of the Comptroller to revoke the patent was upheld (at 247-248).

In *Cathro's Application* (1934) 51 RPC 75, in the context of the *Patents and Designs Act 1919* (UK), s 27(2)(a) that “if the patented invention (being one capable of being worked in the United Kingdom), is not being worked within the United Kingdom on a commercial scale, and no satisfactory reason can be given for such non-working”, the Comptroller-General addressed what are the “satisfactory reasons” (at 85-86). The invention concerned screen grid thermionic valves, with an efficient construction under the Mitchell patent also falling with the Hull patent (set out above). The patentee admitted the Mitchell patent was not being worked, and reasoned (1) the improvements effected by the invention were more suited to American-type valves than British-type valves if they could be applied to British-type valves at all, and (2) that there was no demand in the United Kingdom for valves according to the Mitchell patent, the demand being adequately satisfied by the Hull patent (at 84-85). In accepting that these reasons were satisfactory to found the grant of a compulsory license, the Comptroller-General noted that the purpose of patenting was to encourage invention (at 86). In the circumstances, granting a compulsory license for a minor improvement “which modifications had not been found to be sufficiently important to be utilised in practice” (the Mitchell patent) would unfairly also require a compulsory license for the originating patent (the Hull patent) for which there were no grounds for granting a compulsory license (at 86-88). The applicant expressly admitted that working the Mitchell patent under a compulsory license of would infringe the Hull

patent (at 88). As a consequence of the admission, the Comptroller-General decided not to grant the compulsory license for the Mitchell patent as this would be unfair to the patent holder of the Hull patent (at 89). However, in a fresh application (*Cathro's Application* (1934) 51 RPC 475) the applicant withdrew the admission saying the Mitchell patent could be worked without infringing the Hull patent (at 478-479), and the Comptroller-General then awarded a compulsory license (at 482).

In *Intertype Ltd's Application* (1926) 43 RPC 305, again in the context of the *Patents and Designs Act 1919* (UK), s 27(2)(a), the applicant contended that the patentee had not worked the invention in the United Kingdom and would not license the invention at all so that a compulsory license should be granted (at 308-309). The evidence showed that typographical line-casting machines incorporating the invention were being imported by the applicant from the United States and that these machines were found to be infringing the patent (at 306). In response to the finding of infringement the applicants sought a compulsory license (at 306). The Assistant-Comptroller concluded that a refusal to license at all with no United Kingdom manufacture will undoubtedly be unsatisfactory (at 309):

I cannot conceive that, because the patentees, for reasons which seem to them expedient and sufficient, do not see fit to exploit the invention in this country, they have an unquestionable right to decline to permit the manufacture of the patented article on reasonable terms by other persons interested. If this view be correct, it would appear that, in effect, the patentees are maintaining the patent in force mainly for obstructive purposes and it seems to me, therefore, on the evidence available, that the present case is precisely one which the provisions of section 27 of the Acts were intended to meet.

The approach of Justice Parker in *Hatschek's Patents* (1909) 26 RPC 228 seems appropriate, so that the term "satisfactory" is "elastic" and that its meaning "depend[s] largely on the point of view from which the facts which may have been proved are considered" (at 241). Further, as the facts in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 showed, there can be very good reasons why inventions are not exploited and they may not be readily apparent until the details of the evidence are considered (at 579). However, the threshold of "satisfactory reason" is uncertain, and for a potential applicant, might be

very difficult to assess before lodging an application without some knowledge of the patent holders specific circumstances.

Conclusions

There have been regular assertions that compulsory licensing encourages the licensing and working of inventions sooner, with the compulsory licence serving as an effective incentive for patent holders to grant a licence voluntarily and on their own terms.⁴⁴

The question addressed by this article is what do the words in the *Patents Act*, s 133(2)(a) actually mean, and can they in fact “promote the efficient use of patents and promote competition” and “incentivise” the licensing and working of inventions sooner. As this article demonstrates, the likely meanings of the threshold criteria in the *Patents Act*, s 133(2)(a) are uncertain. While this has been identified as a concern by others,⁴⁵ the details and scope of the interpretive problems have not been assessed. From the analysis in this article it is apparent that the uncertain meanings impose significant thresholds for evidence (proof), qualifications, discretions, expense and uncertain access to the know-how necessary to actually exploit the invention.⁴⁶ The conclusion of this analysis must be that the uncertain meanings, evidentiary requirements, and the likely considerable expense with little prospect of gauging the

⁴⁴ See, for examples, Explanatory Memorandum, above n 12, p 12; Senate Economics Legislation Committee, *Provisions of the Intellectual Property Laws Amendment Bill 2006* (Senate Printing, 2006) p 34; Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (IP Australia, 2000) p 162; Australian Law Reform Commission, above n 11, p 613. See also Diwell K, “Balancing Intellectual Property and Competition Policy” (2006) 19 *Australian Intellectual Property Law Bulletin* 1 at 2; Nicol D and J Nielsen, *Patents and Medical Biotechnology: An Empirical Analysis of Issues Facing the Australian Industry*, Centre for Law and Genetics Occasional Paper No 6 (Centre for Law and Genetics, 2003) p 238; Lawson C, “Patenting Genes and Gene Sequences and Competition: Patenting at the Expense of Competition” (2002) 30 *Federal Law Review* 97 at 114. An alternative explanation for why compulsory licenses are not readily useful in practice is that the problem for patents is lack of interest as opposed to suppression of valuable inventions, and as a consequence, the presently formulated provisions are really only directed to compulsory licensing of fully and profitably exploited patents: White T, *Patents for Inventions and the Protection of Industrial Designs* (4th edition, Stevens, 1974) p 369.

⁴⁵ See, for example, Intellectual Property and Competition Review Committee, above n 44, pp 162-163.

⁴⁶ See Industrial Property Advisory Committee, above n 12, p 28.

likely success of an application are unlikely to encourage a potential applicant. Rather, these thresholds appear as a likely barrier to a potential applicant and undermine any incentive the provision might hold for a patent holder to license and work the invention sooner. The policy question at stake is whether these limitations might be redressed so that compulsory licensing is a *real* incentive to license and work inventions sooner? Unfortunately, the other limitations imposed by the *Patents Act* reinforce the likely barriers faced by potential applicants and undermine any incentives for the patent holder.

Perhaps the first limitation to address is that the current *Patents Act* is that “a person may [*only*] apply to the Federal Court ... for an order requiring the patentee to grant the applicant a licence to *work* the patented invention” (emphasis added).⁴⁷ The term “work” is then defined to mean “make or import the product”, “use the method or process” and “make or import” the product of the “method or process”.⁴⁸ This is significantly narrower than the other essential elements of a patentee’s “exclusive rights”, and importantly, does not include “hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use ... it, or keep it for the purpose of doing any of those things”.⁴⁹ Put another way, a court can *only* grant a compulsory license to make or import the patented product (including the product of a process or method) and use the method or process. The usefulness of a compulsory license is likely to be of very little value without the ability to, at the very least, sell or “otherwise dispose” of the patented product (including the product of a process or method).

The next significant limitation in the current *Patents Act* is that “[a]n order must not be made ... that is inconsistent with a treaty between the Commonwealth and a foreign country”.⁵⁰ The most significant of these is likely to be the *Australia-United States Free Trade Agreement* (“AUSFTA”),⁵¹ Art 17.9.7 that provides, in part:

⁴⁷ *Patents Act 1990* (Cth), s 133(1).

⁴⁸ *Patents Act 1990* (Cth), sch 1 (“work”).

⁴⁹ See *Patents Act 1990* (Cth), s 13(1) and sch 1 (“exploit”).

⁵⁰ *Patents Act 1990* (Cth), s 136.

⁵¹ *Australia-United States Free Trade Agreement* [2005] ATS 1 (“AUSFTA”).

A Party shall not permit the use⁵² of the subject matter of a patent without the authorisation of the right holder except in the following circumstances:

- (a) to remedy a practice determined after judicial or administrative process to be anti-competitive under the Party's laws relating to prevention of anti-competitive practices.⁵³
or
- (b) in cases of public non-commercial use, or of national emergency, or other circumstances of extreme urgency, provided that ...

In this formulation, para (a) is addressed by the “competition test” in the *Patents Act*, s 133(2)(b), and para (b) is addressed by the “Crown use” in the *Patents Act* ss 163-172. A plain and literal interpretation of the AUSFTA provision would appear to expressly exclude the operation of s 133(2)(a). The Australian Government has advised, however, that it “does not intend to amend the existing test in the light of the AUSFTA”⁵⁴ The interpretive approach preferred by the Australian Government is that the term “anti-competitive practices” addressed in AUSFTA should be interpreted broadly so as to cover the existing compulsory license provisions under the *Patents Act*, and this will include “the grant of a compulsory license if, among other conditions, “the reasonable requirements of the public” have not been met”.⁵⁵ Whether a court would invest the term “anti-competitive practices” with such broad meaning remains to be established.

There is also further uncertainty apparent in the policy intent of a compulsory licensing provision such as s 133(1)(a). In crafting the amendment set out in the *Intellectual Property Laws Amendment Act 2006* (Cth) the Australian Government expressly rejected the narrow focus of competition in a market advocated by earlier

⁵² The footnote providing, in part: “[u]se” in this paragraph refers to use other than that allowed under para 3 and Art 30 of the TRIPS Agreement”: AUSFTA, Art 17.7.7 footnote 17-[22].

⁵³ The footnote providing, in part: “[w]ith respect to sub-para (a), the Parties recognize that a patent does not necessarily confer market power”: AUSFTA, Art 17.7.7 footnote 17-[23].

⁵⁴ Australian Law Reform Commission, above n 11, p 617. See also Department of Foreign Affairs and Trade, *Australia – United States Free Trade Agreement: Guide to the Agreement* (DFAT, 2004) pp 99-100.

⁵⁵ Senate Economics Legislation Committee, above n 44, p 46.

reviews of the provision.⁵⁶ The Australian Government expressly recognised that there were other “public interest” justifications for granting compulsory licenses.⁵⁷ The stated objective of the amendment together with the remaining provisions was:

To ensure that the compulsory licensing provisions provide an appropriate level of access to patented inventions and strike an appropriate balance between the rights of patent owners and the public interest in access to patented inventions.⁵⁸

In this context the mischief that compulsory licensing was identified as addressing was that:

A granted patent is essentially a right to exclude others from using the patented invention. The patentee also has the right to choose not to exploit the invention. However, if their failure to use the invention at all, or to a sufficient extent, is contrary to the public interest then access to the invention can be obtained in certain circumstances.⁵⁹

The existing *Patents Act*, s 133(2)(a) sets out the “certain circumstances” for restricting the “exclusive rights” of a patent holder (other than the contravention of a competition law).⁶⁰ Importantly, this identified mischief accepts that the “public interest” considerations are limited, perhaps encouraging courts to narrowly consider the circumstances when they might consider a compulsory license appropriate within the bounds of the existing s 133(2)(a). However, as the analysis in this article demonstrates, the uncertain meanings, evidentiary requirements and likely expense with no certainty of success suggest that a potential applicant would have to be very brave to lodge an application. With respect, the incentive effects of compulsory licenses to encourage licensing and earlier working of inventions would appear to be a

⁵⁶ See Intellectual Property and Competition Review Committee, above n 44, pp 162-163.

⁵⁷ See Explanatory Memorandum, above n 12, pp 14-15.

⁵⁸ Explanatory Memorandum, above n 12, p 12.

⁵⁹ Explanatory Memorandum, above n 12, p 11. See also Intellectual Property and Competition Review Committee, above n 44, p 162; Industrial Property Advisory Committee, above n 12, p 29.

⁶⁰ This appears to have been grudgingly accepted by the Intellectual Property and Competition Review Committee despite its focus only on a competition centered test: Intellectual Property and Competition Review Committee, above n 44, pp 162-163.

very weak claim. As a consequence, for there to be a *real* incentive, the provisions need to be revisited by Parliament and recast in meaningful and purposeful text.

Attachment 2

Compulsory Licensing under the *Patents Act 1990* (Cth) to Remedy Anti-competitive Conduct under the *Trade Practices Act 1974* (Cth)

Abstract

The *Intellectual Property Laws Amendment Act 2006* (Cth) amended the *Patents Act 1990* (Cth) by providing a specific remedy for compulsory licensing under the *Patents Act 1990* (Cth) for a breach of competition laws, such as Pt IV of the *Trade Practices Act 1974* (Cth). This article examines the evolution of this amendment and its likely operation. The article concludes that the hurdles for this compulsory licensing scheme under the *Patents Act 1990* (Cth) seem impractical when the same, or an arguably superior, remedy is already available under the *Trade Practices Act 1974* (Cth).

Introduction

A “compulsory license”¹ under the *Patents Act 1990* (Cth) (“*Patents Act*”) for a “standard patent”² traces its origins to a concern that foreign patent owners might limit domestic prosperity by hindering domestic manufacture and industry development, and at the same time, extract monopoly profits.³ Promoting domestic industry and development may no longer be the imperative,⁴ but compulsory licensing

¹ Defined to mean “a license granted under an order made under s 133 [of the *Patents Act 1990* (Cth)]”: *Patents Act 1990* (Cth), sch 1 (“compulsory license”).

² *Patents Act 1990* (Cth), s 61 and sch 1 (“standard patent”). Provision is also made for the compulsory licensing of certified “innovation patents” (ss 133(1) and (1A)) and Crown use without the patent holder’s authorisation (ss 163-172).

³ Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (AGPS, 1984) 28 (“Stonier Committee”). See also *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 at 575 (Menzies J).

⁴ For example, the R&D Tax Concessions was extended to multinational businesses that hold their intellectual property overseas from 1 July 2007, recognizing that making “Australia a more attractive place for world class innovation will boost investment, expand our skills base and help anchor the local arms of leading multinationals in Australia”: see Australian Government, *Global Integration: Changing Markets, New Opportunities*, Industry Statement (Department of Industry, Tourism and Resources, 2006) 9. Further, in the *Patents Act 1990* (Cth), s 135(1), the provision in the *Patents Act 1952* (Cth), s 110(1) setting out an importing ground for the grant of a compulsory license, was

does potentially provide a useful tool to implement the pro-competition objectives under the *Patents Act*⁵ where the patent holder might seek to inefficiently take advantage of the statutory privilege to impose high prices or restricted access contrary to a broader “public interest”.⁶ The Australian Government recently amended the compulsory license provision in the *Intellectual Property Laws Amendment Act 2006* (Cth) (“*IPLA Act*”) “to further promote the efficient use of patents and promote competition”⁷ by restricting the venue for awarding a compulsory license to the Federal Court (with an appeal open to the High Court),⁸ reformulated the existing

omitted: “the reasonable requirements of the public shall be deemed not to have been satisfied: ... (d) if the working of the patented invention in Australia on a commercial scale is being hindered by the importation from abroad of the patented article by: (i) the patentee or persons claiming under him; (ii) by persons directly or indirectly purchasing from him; or (iii) by other persons against whom the patentee is not taking, or has not taken, proceedings for infringement”. Although, this may be because these provisions were adequately addressed by the other criteria set out in the *Patents Act 1990* (Cth): see Stonier Committee, n 3, 30. See also Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (IP Australia, 2000) p 162 (“Ergas Committee”).

⁵ At best the Australian Government’s policy objectives for patents are couched in generalized terms such as “strengthen our intellectual property (IP) management processes and increase access to global research and technologies” (Commonwealth, *Backing Australia’s Ability: An Innovation Action Plan for the Future* (Big Island Graphics, 2001) p 18), and to variously stimulate invention (and innovation), increase the public availability of information about new technology, encourage entrepreneurs, promote investment and address free-riding on investment in intellectual effort (Ergas Committee, n 4, pp136-138).

⁶ For example, to promote competition by prohibiting certain forms of anti-competitive conduct: Stoner Committee, n 3, pp 25-27; to “facilitate access to patented genetic materials and technologies for use in research and development”: Australian Law Reform Commission, *Genes and Ingenuity: Gene Patenting and Human Health*, ALRC 99 (SOS Printing Group, 2004) p 611 (“Weisbrot Committee”). Other provision in the *Patents Act 1990* (Cth) that might also be relevant include limiting “inventions” that might be “mischievous to the state by raising prices of commodities at home, or hurt trade, or generally inconvenient” (s 18(1) and sch 1), revocations (ss 101, 134 and 138), and limiting some conditions in contracts “relating to the sale or lease of, or a license to exploit, a patented invention” (ss 144-146).

⁷ Explanatory Memorandum, *Intellectual Property Laws Amendment Bill 2006* (Senate Printing, 2006) p 1.

⁸ *Intellectual Property Laws Amendment Act 2006* (Cth), sch 8 (items 1, 4 and 6).

threshold requirements for the grant of a compulsory license,⁹ and adding a so-called “competition test”.¹⁰ The *Patents Act* as amended now provides, in part, that:

- (1) ... a person may apply¹¹ to the Federal Court,¹² after the end of the prescribed period,¹³ for an order¹⁴ requiring the patentee¹⁵ to grant the applicant a license¹⁶ to work¹⁷ the patented invention.¹⁸
- ...
- (2) After hearing the application, the court may, subject to this section, make the order if satisfied that:
 - (a) all the following conditions exist:

⁹ *Intellectual Property Laws Amendment Act 2006* (Cth), sch 8 (items 2 and 3).

¹⁰ *Intellectual Property Laws Amendment Act 2006* (Cth), sch 8 (items 2 and 5).

¹¹ The application must include “(i) the name and address of the applicant; and (ii) the address for service in relation to the application; and (iii) the identity of the patent; and (iv) if the applicant relies on the ground mentioned in para 133(2)(a) of the Act – facts supporting the assertion that the reasonable requirements of the public with respect to the patented invention have not been satisfied; and (iva) if the applicant relies on the ground mentioned in para 133(2)(b) of the Act – facts supporting the assertion that the patentee has contravened, or is contravening, Pt IV of the *Trade Practices Act 1974* [(Cth)] or an application law (as defined in section 150A of that Act) in connection with the patent; and (v) for an innovation patent – the date that the patent was certified” and “a declaration by the applicant to the effect that the facts in the statement are true to the best of the knowledge of the applicant”: *Patents Regulations 1991* (Cth), rr 12.1(2)(a) and (b).

¹² Noting that an appeal may be open to the High Court: see *Federal Court Act 1976* (Cth), s 33.

¹³ This is “the period of 3 years after the date of sealing of the patent to which the application relates”: *Patents Regulations 1991* (Cth), r 12.1(1).

¹⁴ Noting that “[a]n order operates, without prejudice to any other method of enforcement, as if it were embodied in a deed granting a license and executed by the patentee and all other necessary parties”: *Patents Act 1990* (Cth), s 133(4).

¹⁵ The term “patentee” means “the person for the time being entered in the Register as the grantee or proprietor of a patent”: *Patents Act 1990* (Cth), sch 1 (“patentee”).

¹⁶ The term “license” means “a license to exploit, or to authorise the exploitation of, a patented invention”: *Patents Act 1990* (Cth), sch 1 (“license”).

¹⁷ The term “‘work’, in relation to a patented invention, means: (a) where the invention is a product – make or import the product; or (b) where the invention is a method or process – use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use”: *Patents Act 1990* (Cth), sch 1 (“work”).

¹⁸ The chapeau of this subsection was also amended to address certified “innovation patents”: *Patents Amendment (Innovation Patents) Act 2000* (Cth), s 3 and sch 1 (item 66).

- (i) the applicant has tried for a reasonable period, but without success, to obtain from the patentee an authorisation to work the invention on reasonable terms and conditions;¹⁹
 - (ii) the reasonable requirements of the public with respect to the patented invention have not been satisfied;
 - (iii) the patentee has given no satisfactory reason for failing to exploit the patent; or
- (b) the patentee has contravened, or is contravening, Pt IV of the *Trade Practices Act 1974* [(Cth)] or an application law (as defined in section 150A of that Act)²⁰ in connection with the patent.²¹

There are a number of other practical limitations on the grant of a compulsory license under this provision. The court may grant a compulsory license on any terms *except* that the license must not be exclusive,²² that it may “be assignable only in connection with an enterprise or goodwill in connection with which the license is used”,²³ that the order must not be “inconsistent with a treaty between the Commonwealth and a foreign country”,²⁴ and that the patent holder must be appropriately compensated.²⁵ Further provision is also made for circumstances where another patent may be infringed in exercising the ordered compulsory license (dependant patent).²⁶

The effect of the *IPLA Act* amendments was to establish two separate schemes, one focussed on addressing making patented products, methods or processes and products of methods or processes available without the authorisation of the patent holder, and

¹⁹ Noting that this threshold requirement was formally set out in *Patents Act 1990* (Cth), s 133(3A). See also *Patents (World Trade Organization Amendments) Act 1994* (Cth), s 11.

²⁰ The significant consequence of this definition is to expand the operation of the *Trade Practices Act 1974* (Cth) to the “Competition Code” and that, in part, rewords the *Trade Practices Act 1974* (Cth), pt IV so that it applies to “a person” rather than just “a corporation”.

²¹ *Patents Act 1990* (Cth), s 133. The phrase “in connection with the patent” is not a technical phrase and simply means that the contravening conduct must in some way be traceably connected to the patent: see, for example, *Maggbury Pty Ltd v Hafele Australia Pty Ltd* (2001) 185 ALR 152 at 170 (Kirby J); *Speedy Gantry Hire Pty Ltd v Preston Erection Pty Ltd* (1998) 40 IPR 543 at 554 (Emmet J).

²² *Patents Act 1990* (Cth), s 133(3)(a).

²³ *Patents Act 1990* (Cth), s 133(3)(b).

²⁴ *Patents Act 1990* (Cth), s 136.

²⁵ *Patents Act 1990* (Cth), s 133(5).

²⁶ *Patents Act 1990* (Cth), s 133(3B)(b).

the second, as a remedy for contravention of competition laws, such as Pt IV of the *Trade Practices Act 1974* (Cth) (“*Trade Practices Act*”).²⁷ The purpose of this article is to address the likely operation of this latter scheme. Part 2 of the article examines the likely exercise of the discretion inherent in the grant of any compulsory license under the *Patents Act*. After this, Part 3 considers the evolution of the “competition test” amendment set out in the *IPLA Act* and its intended operation. The following Part 4 provides an examination of the likely effect of the Australian Government’s commitments in international agreements, including the *Australia-United States Free Trade Agreement* (“AUSFTA”)²⁸ and the World Trade Organisation’s *Agreement on Trade Related Aspects of Intellectual Property Rights* annexed to the *Marrakesh Agreement Establishing the World Trade Organisation* (“TRIPS”),²⁹ and Part 5 addresses some of the additional restrictions imposed by the *Patents Act*. The final Part 6 sets out the conclusion that the “competition test” amendment is unlikely to be a practical remedy for contravention of Pt IV of the *Trade Practices Act* because of the limited scope of a compulsory license order under the *Patents Act*. These hurdles seem unattractive when the same, or an arguably superior, remedy is already available under the *Trade Practices Act*.

Exercising the discretion

The granting of a compulsory license under the *Patents Act* is discretionary: “the court may, subject to this section, make the order if satisfied that ...”.³⁰ How the court might exercise that discretion was examined by Justice Menzies in the High Court in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 considering the words where “the court is satisfied that ... the court may order the patentee to grant licenses” in the *Patents Act 1952* (Cth).³¹ The patent concerned improvements to an explosive bolt gun used to fasten materials together, and in

²⁷ See Commonwealth of Australia, *House of Representatives Hansard*, 30 March 2006, p 15 (Robert Baldwin, Parliamentary Secretary to the Minister for Industry, Tourism and Resources); Commonwealth of Australia, *Senate Hansard*, 8 August 2006, p 74 (Amanda Vanstone, Minister for Immigration and Multicultural Affairs).

²⁸ [2005] *Australian Treaty Series* 1 (“AUSFTA”), Arts 17.1.1 and 17.1.6.

²⁹ [1995] *Australian Treaty Series* 8, Annex 1C, pt 2, s 5 (“TRIPS”), Arts 2(1), 31 and 31bis.

³⁰ *Patents Act 1990* (Cth), s 133(2).

³¹ See *Patents Act 1952* (Cth), s 108(3).

particular, “the automatic return of the driving ram from its fired position to its firing position” (at 576). The available evidence showed that the patent was licensed to an Australian subsidiary (Ramset Fasteners (Aust) Pty Ltd) by a United States corporation (Olin Mathieson Chemical Corporation, itself an assignee of the patent from Ramset Fasteners Inc) that was manufacturing the guns in the United States (at 576-577). However, no guns had been imported into Australia and the guns were not manufactured and made available for sale in Australia until after the petition was lodged (at 577). Before the petition was lodged, however, Fastening Supplies had bought and sold similar guns that would have infringed the patent and had been advised to cease the sales and account for the profits by Olin Mathieson (at 577). In response Fastening Supplies sought a license, but was advised by Olin Mathieson that Ramset was its exclusive licensee in Australia, and was not prepared to grant a sub-license (at 577-578). In short, there was a market for such bolt guns (at 576-577), it was common ground that the invention was a better gun (at 576-577), and those authorised to supply the market were not supplying the market (either by local manufacture or importing) (at 578).

The issue for Justice Menzies based on the construction of the provision was characterised as a discretion for the Court to award, or not award, a compulsory license if satisfied “that the reasonable requirements of the public with reference to the patented invention have not been satisfied” (at 574). Justice Menzies considered that the exercise of this discretion was necessary following an affirmative finding that one of the listed deeming circumstances about “reasonable requirements of the public” had been satisfied (at 574). As a matter of construction, Justice Menzies considered that the discretion should be exercised according to the circumstances at the time of hearing the petition, and not at the time the petition was lodged (at 575).³² In exercising the discretion, Justice Menzies stated, albeit not as a comprehensive statement of the discretion’s boundaries (at 574-575):

As, however, the discretionary power is conferred for the public good, it seems to me that an order should follow an affirmative finding [that the reasonable requirements of the public with reference

³² While there was no authority cited, a clear statement of the principle was articulated in *Re Application of McKechnie Bros* (1934) 51 RPC 461 at 467 (Luxmore J).

to the patented invention have not been satisfied] unless the Court is satisfied that there is some sound reason for declining to make the order. Such a reason would, I think, be that local manufacture has been established by the patentee and a satisfactory reason has been given for delay in fulfilling a long-standing intention to establish such manufacture or that the applicant for a compulsory license is not a person fitted to be a licensee. The capacity of a prospective licensee to maintain the reputation of the patented article is a matter of legitimate concern to the patentee and to the Court.³³

Justice Menzies was satisfied on the evidence that at the time the petition was lodged that the reasonable requirements of the public with respect to the patented article had not been satisfied: “[n]one [of the guns] had been available to the public despite a potential demand which became actual as soon as the articles made in accordance with the invention became available to the market” (at 577). According to Justice Menzies’ construction, the next issue was to exercise his discretion in favour of awarding a compulsory license *unless* there was some sound reason for declining to make the order (at 574-575). In deciding not to exercise the discretion (that is, against ordering a compulsory license), Justice Menzies considered evidence of the reasons why Ramset (and Olin Mathieson) had not supplied the market in Australia until after the petition was lodged. The main reasons from the patent holder’s side (Ramset) appear to have been that there were “substantial difficulties” and “considerable efforts” in designing a tool that could be manufactured in Australia that was suited to the Australian market, and that there was a reasonable commercial decision to defer manufacture until a satisfactory gun could be manufactured in Australia (at 578-580): “[t]he evidence establishes to my satisfaction that the manufacture, which has now been established in Australia by Ramset, is not merely a belated response to the petition for a compulsory license” (at 578-580). Meanwhile, from the petitioner’s side there appeared to be no capacity in the form of the skill, knowledge, experience or resources to actually manufacture the patented invention, and there was only an intention to sub-contract the manufacture of a similar, but otherwise infringing, gun (at 580-582). Further, Justice Menzies was not satisfied that the petitioner “would produce satisfactory articles, particularly having regard to the evidence ... about the

³³ Another reason might be that the patentee was reasonably supplying the market with an exact equivalent of what was covered by the patent: see, for example, *SmithKline Beecham Plc v Apotex Europe Ltd* [2003] FSR 30 at [26]-[28] (Jacob J).

complexity of what is involved in making the parts that are necessary” (at 582). Justice Menzies also considered that the production then established by Ramset would meet the reasonable requirements of the public for the patented articles and that the petitioner was not “a suitable company to be granted a license to work the invention by the establishment of manufacture in Australia” (at 583).³⁴

In short, a similarly constructed discretion under the *Patents Act 1952* (Cth) was exercised by considering the evidence addressing the threshold requirements, and on finding the thresholds were satisfied, exercising the discretion in favour of awarding a compulsory license *unless* there was some reason for declining to make the order. There seems no reason to doubt that the discretion might be similarly considered under the *Patents Act*. The decision in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* illustrates a circumstance where the court declined to exercise its discretion, and also that the petitioner acted without full knowledge of the circumstances about why the market was not being supplied (or why an offer to enter into a license was refused) and with no way to gain this essential knowledge.

The evolution and intended operation of the “competition test”

The *IPLA Act* implemented the Australian Government’s response to some of the recommendations of the Intellectual Property and Competition Review Committee (“Ergas Committee”).³⁵

The Bill implements another recommendation of the Ergas report by amending the *Patents Act* to add a new ground on which a compulsory license to use a patent may be granted. Under the existing provisions of the *Patents Act*, a compulsory license to use a patent may be granted if the patent owner is not meeting the reasonable requirements of the public in respect of the patented invention. This amendment to the *Patents Act* will retain this existing test for the grant of a

³⁴ Interestingly, Justice Menzies awarded costs against Ramset, recognizing that at the time of the petition the reasonable requirements of the public for the patented articles were not satisfied. Although the petitioner was required to pay the costs of the Commissioner of Patents who had referred the matter to the High Court under the *Patents Act 1952* (Cth), s 108(2).

³⁵ See House of Representatives Hansard, n 27, pp 14-17; Senate Hansard, n 27, pp 37-76. See also Explanatory Memorandum, n 7, p 44; Further Explanatory Memorandum, *Intellectual Property Laws Amendment Bill 2006* (Senate Printing, 2006) p 3.

compulsory license, and will add an additional provision, making the compulsory licensing of patents subject to a competition test.³⁶

The Ergas Committee had considered that a compulsory license was *prima facie* inconsistent with the “exclusive rights” provided by the *Patents Act*, and that a justification for compulsory licensing was that “the threat of compulsory licensing may lead to innovations being worked sooner and more widely than they would otherwise have been”.³⁷ In these terms, the existing provision was “poorly aligned to securing these goals”, and was “hark[ing] back to a period where the primary concern was the promotion of domestic industry” instead of “securing the best use of resources and achieving high levels of productivity” and “allow[ing] for the legitimate interests of the rights owner to be adequately protected”.³⁸ The Ergas Committee therefore recommended:

... that s 135 of the *Patents Act* be repealed and that s 133(2) be amended to include an order requiring a compulsory license to be made if and only if all of the following conditions are met:

- (a) access to the patented invention is required for competition in the (relevant) market;
- (b) there is a public interest in enhanced competition in that market;
- (c) reasonable requirements for such access have not been met;
- (d) the order will have the effect of allowing these reasonable requirements to be better met; and
- (e) the order will not compromise the legitimate interests of the patent owner, including that owner’s right to share in the return society obtains from the owner’s invention, and to benefit from any successive invention, made within the patent term, that relies on the patent.³⁹

The Australian Government’s response was to accept this recommendation “in part”:

³⁶ House of Representatives Hansard, n 27, p 15; Senate Hansard, n 27, p 74.

³⁷ Ergas Committee, n 4, p 162. Notably, the Ergas Committee also reasoned that “at a conceptual level, there may be instances where a compulsory access right is warranted. These include situations in which bargaining between parties is not able to achieve an outcome or, more importantly, situations in which the access right acts as a pro-competitive remedy that tempers the exclusivity that the patent right primarily provides” referring to “[e]xperience in other jurisdictions with compulsory licenses” (p 162).

³⁸ Ergas Committee, n 4, p 162.

³⁹ Ergas Committee, n 4, p 163.

In principle, the Government supports the [Ergas] Committee’s recommendation to make the compulsory licensing of patents subject to a competition test. However, as it stands, this recommendation would limit the grounds on which to obtain a compulsory license to the situation where access to patented technology is required to ensure competition in the (relevant) market, rather than the broader grounds based on the “reasonable requirements of the public”. Depending on its interpretation, this could preclude situations where compulsory licensing could be argued to be valuable from a public policy perspective ... Accordingly, the Government believes that the existing tests should be retained and a competition test be added as an additional ground on which a compulsory license can be obtained.⁴⁰

The reasons given for rejecting a competition test alone were:

- (a) the recommended test may be more stringent in some circumstances than the existing tests and may result in the compulsory licensing provisions ceasing to act as an incentive to negotiate a voluntary license; and
- (b) a competition test will not cover some situations where the non-working of the invention, or other effective denial of reasonable access to it, has some negative effect on the public interest which is not dependant on competition in the market.⁴¹

More recently than the Ergas Committee, the Australian Law Reform Commission (“Weisbrot Committee”) considered compulsory licensing in the context of a mechanism that could facilitate access to patented genetic materials and technologies uses in research and the provision of healthcare.⁴² The Weisbrot Committee recommended that the *Patents Act* be amended to include a competition-based test (according to the Ergas Committee recommendation) as an additional ground for the grant of a compulsory license.⁴³ The Weisbrot Committee also considered the retention of the “reasonable requirements of the public” test was necessary to address other public interest grounds for granting compulsory licenses.⁴⁴ The Weisbrot

⁴⁰ Australian Government, *Government Response to Intellectual Property and Competition Review Recommendations* (IP Australia, 2001) p 8.

⁴¹ Australian Government Response, n 40, p 8.

⁴² Weisbrot Committee, n 6, p 611.

⁴³ Weisbrot Committee, n 6, p 625.

⁴⁴ Weisbrot Committee, n 6, p 624. The example cited was that “the reasonable requirements of the public might not be satisfied where a patent holder’s monopoly control of its patented medical genetic

Committee recommended that the test should not be exhaustive and that the Australian Government should “clarify the circumstances in which the reasonable requirements of the public with respect to a patented invention are to be taken *not* to have been satisfied” (emphasis added).⁴⁵

The form of the Australian Government’s response to the Ergas Committee in the *IPLA Act*⁴⁶ (and presumably also to the Weisbrot Committee)⁴⁷ was to retain the existing provisions, and add an additional and separate measure directed to contraventions of the competition provisions of the *Trade Practices Act* and State and Territory laws and the “competition test”.⁴⁸

With the introduction of the *Intellectual Property Laws Amendment Bill 2006* (Cth) (“*IPLA Bill*”) to the Senate,⁴⁹ the Bill was considered by the Senate Selection of Bills Committee,⁵⁰ and referred to the Senate Economics Legislation Committee.⁵¹ The Senate Economics Legislation Committee report set out in some detail the Australian

test has had an injurious effect on the development of skills within the Australian healthcare sector” (p 624).

⁴⁵ Weisbrot Committee, n 6, p 625.

⁴⁶ See Explanatory Memorandum, n 7, p 44; Further Explanatory Memorandum, n 35, p 3.

⁴⁷ Albeit that there has been no formal Australian Government response to its recommendations. Notably, IP Australia suggested to the Senate Economics Legislation Committee that the Australian Government “has not as yet finalized its response to this report” perhaps suggesting that a response might address the compulsory licensing recommendations: Senate Economics Legislation Committee, *Provisions of the Intellectual Property Laws Amendment Bill 2006* (Senate Printing, 2006) p 37.

⁴⁸ The “application laws” defined in *Trade Practices Act 1974* (Cth), s 150A refers to “a law of a participating jurisdiction that applies the Competition Code” being the various State and Territory *Competition Policy Reform Acts*. See Explanatory Memorandum, n 7, p 45; Further Explanatory Memorandum, n 35, p 4.

⁴⁹ See Senate Hansard, n 27, p 73. See also Department of Parliamentary Services, *Intellectual Property Laws Amendment Bill 2006*, Bills Digest No 159 (Department of Parliamentary Services, 2006) pp 10-12.

⁵⁰ The reason provided for referring the Bill was to “verify [the] accuracy of [the] implementing legislation with respect to the stated objectives of the [Explanatory Memorandum]”: Senate Selection of Bills Committee, *Report No 6 of 2006* (Senate Printing, 2006) p 8.

⁵¹ Commonwealth of Australia, *Senate Hansard*, 22 June 2006, p 13 (Jeannie Ferris, Government Whip).

Government's perspectives about the operation of the "competition-based test".⁵² In particular, the Australian Government noted that both the Ergas Committee and Weisbrot Committee recommendations were "aimed at promoting competition",⁵³ while the proposed amendment in the *IPLA Bill* was directed to "a remedy for anti-competitive conduct, rather than to aid in promoting competition against the patentee".⁵⁴ The framing of the amendment was, therefore, in a form that required there to be a breach of a competition law for which a compulsory license was then a possible remedy.⁵⁵ This form was necessary to comply with Australia's existing international commitments in TRIPS and the AUSFTA.⁵⁶ Further, the amendment was intended to maintain "the existing test for [the] grant of a compulsory license for a patent, on the ground that the "reasonable requirements of the public" with respect to the patented invention have not been satisfied".⁵⁷

One of the concerns addressed during consideration of the *IPLA Bill* was whether the amended *Patents Act* provides a complete code for compulsory licensing patents to the exclusion of all other schemes.⁵⁸ Following the Senate Economics Legislation Committee report the Australian Government has clarified the interaction between the *Patents Act* and the *Trade Practices Act* as they relate to the amendment:

This provision to be inserted into the *Patents Act* is intended to complement the remedies available under the *Trade Practices Act*, and is not intended to limit the court's powers under the *Trade Practices Act*. It is intended to clarify that a compulsory license for a patent is available as a remedy under the *Patents Act* for any breach of Pt IV of the *Trade Practices Act*. This is in addition to any other remedies that may be available under the *Trade Practices Act*.⁵⁹

⁵² Senate Economics Legislation Committee, n 47, pp 14-19.

⁵³ Senate Economics Legislation Committee, n 47, p 38.

⁵⁴ Senate Economics Legislation Committee, n 47, p 39.

⁵⁵ Senate Economics Legislation Committee, n 47, pp 38-39. Notably, this addressed the Weisbrot Committee recommendation concerning clarifying the scope of the *Trade Practices Act 1974 (Cth)*, s 51(3): Weisbrot Committee, n 6, p 576.

⁵⁶ Senate Economics Legislation Committee, n 47, p 39.

⁵⁷ Senate Economics Legislation Committee, n 47, p 38.

⁵⁸ See Senate Economics Legislation Committee, n 47, pp 17-18.

⁵⁹ Further Explanatory Memorandum, n 35, p 4. See also Senate Economics Legislation Committee, n 47, p 18. Notably, the Australian Government clarified in the second reading speeches that: "[t]his

In short, the effect of the *IPLA Act* amendment was undoubtedly to introduce a further remedy for anti-competitive conduct under the *Patents Act* in addition to the existing remedy provisions in the *Trade Practices Act*. The *Trade Practices Act* already makes broad provisions for remedies that may be crafted to the particular circumstances without expressly limiting the form or content of the remedy varying the arrangements between the parties to provide access to the patent protected product or process (in effect like a compulsory license).⁶⁰ The remedies available may be broadly categorised as private remedies to address the (actual or prospective) loss or damage to an individual, and public remedies directed more broadly at promoting competition and consumer concerns in the public interest. The range of remedies includes injunctions,⁶¹ undertakings,⁶² and ancillary relief in the form of “such order or orders as it [the court] thinks appropriate”.⁶³ Importantly, this will also include granting, in

further explanatory memorandum clarifies that the provision to be inserted in the *Patents Act* is intended to complement the remedies available under the *Trade Practices Act* and is not intended to limit the court’s powers under the *Trade Practices Act*. It also clarifies that a compulsory license for a patent is available as a remedy under the *Patents Act* for any breach of Pt IV of the *Trade Practices Act* in addition to any other remedies that are currently available under the *Trade Practices Act*. As a result, a party affected by a patent holder’s anticompetitive conduct will have a great number of options – either seeking any of the remedies that are currently available under the *Trade Practices Act* or seeking the remedy of a compulsory license under the *Patents Act*”: Commonwealth of Australia, *Senate Hansard*, 14 September 2006, pp 66-67 (Grant Chapman, South Australia).

⁶⁰ While there is no Australian authority illustrating this proposition, the United States and European experience shows that competition (anti-trust) laws routinely award compulsory licenses and these same practices would undoubtedly also apply in Australia: see, for examples, Lawson C, “Patenting Genes and Gene Sequences and Competition: Patenting at the Expense of Competition” (2002) 30 *Federal Law Review* 97 at 120-128; van Melle A, “Refusal to License Intellectual Property Rights: the Impact of *RTE v EC Commission* (Magill) on Australian and New Zealand Competition Law” (1997) 25 *Australian Business Law Review* 4. See also *NT Power Generation Pty Ltd v Power and Water Authority* (2004) 219 CLR 90 at 120-122 (McHugh A-CJ, Gummow, Callinan and Heydon JJ) confirming the application of *Trade Practices Act 1974* (Cth), s 46 remedies to intellectual property, albeit *obiter dicta*.

⁶¹ *Trade Practices Act 1974* (Cth), s 80.

⁶² *Trade Practices Act 1974* (Cth), ss 80 and 87B.

⁶³ *Trade Practices Act 1974* (Cth), s 87.

effect, compulsory licenses that provide access to the patent protected product or process:

... the High Court of Australia [has] indicated [in *NT Power Generation Pty Ltd v Power and Water Authority* (2004) 219 CLR 90] that, if an intellectual property owner refuses to license intellectual property, or only licenses it on particular conditions, s 46 of the *Trade Practices Act* can be attracted, and used to create access regimes. However, the *Trade Practices Act* does not include a specific provision under which a person can directly apply to the court for a compulsory license of a patent.⁶⁴

The remaining question is whether the *Patents Act* will, in practice, deliver a usable remedy following a finding that conduct has contravened the *Trade Practices Act*? The following Parts address limitations and restrictions within the *Patents Act* itself that suggests the *IPLA Act* amendment may be of limited practical usefulness.

TRIPS and AUSFTA limitations

The role of international agreements is central to the granting of compulsory licenses under the *Patents Act* because the *Patents Act* expressly provides that: “[a]n order must not be made [for the grant a compulsory license under the *Patents Act*] that is inconsistent with a treaty between the Commonwealth and a foreign country”.⁶⁵ The significant international treaties that are likely to affect every compulsory license order under the *Patents Act* are TRIPS and the AUSFTA. The point to be made about this analysis is that the simple incorporation of this limitation within the *Patents Act* has glossed over complex questions of treaty interpretation. This is likely to make the order of a compulsory license potentially time consuming and expensive, as the court attempts to resolve contentious treaty interpretation issues. The following analysis illustrates the likely complexity of this task.

Article 31 of TRIPS provides for Member 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 and procedures aimed at protecting the “legitimate interests” of the rights holder. The “other use” refers to “use other than that allowed under Art

⁶⁴ Further Explanatory Memorandum, n 35, p 4.

⁶⁵ *Patents Act 1990* (Cth), s 136.

30”.⁶⁶ Article 30 provides that there may only be “limited exceptions” to the exclusive rights provided by a patent and only if those 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”. The “normal exploitation” includes the “exclusive rights” proscribed in Art 28 as “making, using, offering for sale, selling, or importing the product”, “using the process”, and “using, offering for sale, selling, or importing” the product of the process. Article 31 addresses both government use (Crown use) and uses by a third party that has been authorised by government (compulsory licenses).⁶⁷ Most importantly, this Article also addressed some of the controversy reflected in the *Paris Convention for the Protection of Industrial Property* (“Paris Convention 1967”).⁶⁸

Article 5A of the Paris Convention 1967 did not address either the limits to the granting of third party authorisation (other than a short period before which a grant might be made) or compensation to the patent holder.⁶⁹

- (2) 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.
- (3) Forfeiture 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. No

⁶⁶ TRIPS, Art 31 (footnote).

⁶⁷ For a summary of the negotiating history leading to the combining of government use and compulsory licensing see Watal J, *Intellectual Property Rights in the WTO and Developing Countries* (Kluwer Law International, 2001) pp 320-321; Committee on Trade and Environment, *Environment and TRIPS* (World Trade Organisation, 1995) WT/CTE/W/8 at [90]-[93].

⁶⁸ [1972] *Australian Treaty Series* 12 (“Paris Convention 1967”).

⁶⁹ See Bodenhausen G, *Guide to the Application of Paris Convention for Protection of Industrial Property* (Imprimeries Réunies SA, 1968) pp 67-73. See also Reichman J and Hasenzahl C, *Non-voluntary Licensing of Patented Inventions: Historical Perspective, Legal Framework under TRIPS, and an Overview of the Practice in Canada and the USA*, UNCTAD-ICTSD Project on IPRs and Sustainable Development Issue Paper No 5 (UNCTAD-ICTSD, 2003) pp 10-13; Gold R and Lam D, “Balancing Trade in Patents Public Non-Commercial Use and Compulsory Licensing” (2003) 6 *The Journal Of World Intellectual Property* 5 at 13-14; Ford S, “Compulsory Licensing Provisions under the TRIPS Agreement: Balancing Pills and Patents” (2000) 15 *American University of International Law Review* 941 at 958.

proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory license.

- (4) A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory license shall 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.

The effect of the Paris Convention 1967 Art 5A remains uncertain, although potentially it justifies “legislative measures” to prevent “abuses” that might include almost *any* activity or circumstances a Member State defines as an “abuse”, including to protect military security, public health, and so on.⁷⁰ Further, the “legislative measures” may be a compulsory license or forfeiture, according to the order set out in Arts 5A(3) and (4).⁷¹

Article 2(1) of TRIPS preserves the Paris Convention 1967 for Members and the interaction between TRIPS Art 31 and the Paris Convention 1967 Art 5A presumes there is some continuing operation for the Paris Convention 1967 Art 5A, albeit unclear. Some commentators assert, however, that the Paris Convention 1967 “only deals with compulsory licenses granted for failure to work” and that this issue was resolved by TRIPS Art 28(1) providing for importation to satisfy any failure to work,⁷² or Art 27(1) providing that that patent rights shall be enjoyable without discrimination as to whether products are imported or locally produced.⁷³ Others assert that a local working may be found in TRIPS either through the Paris

⁷⁰ See Bodenhausen, n 69, pp 69-71. Notably some commentators assert that as the conduct for the purposes of the Paris Convention 1967, Art 5A(2) must be an “abuse”, this does not include some public interest justifications: see Watal, n 67, p 319 and the references therein.

⁷¹ See Bodenhausen, n 69, p 69.

⁷² Gervais D, *The TRIPS Agreement: Drafting History and Analysis* (2nd edition, Sweet & Maxwell, 2003) p 253.

⁷³ UNCTAD-ICTSD, *Resource Book on TRIPS and Development* (Cambridge University press, 2005) p 467; Watal, n 67, p 318.

Convention 1967 Art 5A⁷⁴ or as allowable under Art 31 itself, so long as the proscribed conditions are satisfied.⁷⁵ Perhaps importantly, the Paris Convention 1967 Art 5A has a broader application than just “failure to work”,⁷⁶ and if it was not intended to apply as a part of TRIPS (or was to be replaced by TRIPS Art 31) then the provision might have been expected to be expressly excluded in TRIPS Art 2(1). As an indication that this issue remains unresolved,⁷⁷ some Members continue to include such measures in their domestic laws.⁷⁸ For example, the request for consultation in *Brazil – Measures Affecting Patent Protection*⁷⁹ resulted in the Brazil Government agreeing to consult with the United States Government before issuing a compulsory license over a patent held by a United States resident without accepting that their laws were necessarily inconsistent with TRIPS Art 31.⁸⁰

The text of TRIPS Art 31 originated from a proposal to restrict compulsory licensing in the initial TRIPS proposal.⁸¹ While this provision *does not* specify the grounds for

⁷⁴ See, for example, Bodenhausen, n 69, p 70.

⁷⁵ See, for example, Champ P and Attaran A, “Patent Rights and Local Working under the WTO TRIPS Agreement: An Analysis of the US-Brazil Patent Dispute” (2002) 27 *Yale Journal of International Law* 365 at 392.

⁷⁶ For example, Bodenhausen states “[o]ther examples of such abuses may exist in cases where the owner of the patent, although working the patent in the country concerned, refuses to grant licenses on reasonable terms and thereby hampers industrial development, or does not supply the national market with sufficient quantities of the patented product, or demands excessive prices for such product. The member States are free to define these, and other, abuses”: Bodenhausen, n 69, p 71.

⁷⁷ See also Reichman and Hasenzahl, n 69, pp 13-14.

⁷⁸ See Watal, n 67, pp 317-319.

⁷⁹ (World Trade Organisation, 2000) WT/DS199/1.

⁸⁰ 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* (World Trade Organisation, 2001) WT/DS199/4G/L/454IP/D/23/Add.1. Notably, this outcome may owe more to the politics of patents being seen as responsible for denying poor peoples’ access to HIV/AIDS pharmaceuticals: see Champ and Attaran, n 75, p 366.

⁸¹ 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*

allowing other use without the patent holder's authorisation,⁸² it *does* impose conditions and procedures on the circumstances in which other use without the patent holder's authorisation may be allowed.⁸³ The conditions and procedures 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 (Art 31(a)-(j)). The issuing of authorisations for anti-competitive conduct is treated separately (Art 31(k)), and additional requirements are imposed for the proper working of another patent (dependent patents; Art 31(l)). Article 31(k) provides:

Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur.

These terms impose a condition that in cases where an authorisation is part of remedying an anti-competitive practice, there is no requirement for "efforts" to obtain authorisation from the patent holder (Art 31(b)) or that supply be "predominantly" for the domestic market (Art 31(f)).⁸⁴ However, where this condition is relied on there

States Proposal for Negotiations on Trade-Related Aspects of Intellectual Property Rights (World Trade Organisation, 1987) MTN.GNG/NG11/W/14 at p 7. See also UNCTAD-ICTSD, n 73, p 463.

⁸² Noting that "[e]ach Member has the right to grant compulsory licenses and the freedom to determine the grounds upon which such licenses are granted": Ministerial Conference, *Declaration on the TRIPS Agreement and Public Health* (World Trade Organisation, 2001) WT/MIN(01)/DEC/2 at [5(b)].

⁸³ See Weismann R, "A Long Strange TRIPS: The Pharmaceutical Industry Drive to Harmonize Global Intellectual Property Rules, and the Remaining WTO Alternatives Available to Third World Countries" (1996) 17 *University of Pennsylvania Journal of International Economic Law* 1069 at 1112-1113.

⁸⁴ Notably, TRIPS, Art 31*bis* traces its origins to the *Declaration on TRIPS and Public Health* (Ministerial Conference, *Ministerial Declaration* (World Trade Organisation, 2001)

must, as a pre-condition, have been a standard of what are the anti-competitive practices and a judicial or administrative process to determine that the particular practice is anti-competitive. So, in *Argentina – Certain Measures on The Protection of Patents and Test Data*⁸⁵ the concern appeared to have been that Argentinean laws established a scheme for the granting of a compulsory license in circumstances the laws defined to be an “anti-competitive” practice without reference to an adjudication that the practice was also in breach of competition laws. The mutually agreed solution was that Argentina would not issue a compulsory license in circumstances the laws defined to be an “anti-competitive” practice unless it was preceded by a judicial or administrative adjudication according to domestic competition laws so as to comply with Art 31(k).⁸⁶

As to what constitutes an “anti-competitive” practice that may then be remedied there remains some uncertainty. Articles 6, 8(2), 39(1), 40(1) and (2) of TRIPS and the Paris Convention 1967 Arts 5A(2) and 10*bis* address various practices and conditions that relate to competition. Presumably the competition laws in Pt IV of the *Trade Practices Act* as they are addressed by the *IPLA Act* amendment will satisfy these standards. This will require a finding that conduct is anti-competitive under the *Trade Practices Act* followed by a *Patents Act* compulsory license as a remedy. Whether the particular formulation of anti-competitive conduct under the *Trade Practices Act* satisfies TRIPS (and the Paris Convention 1967 provisions incorporated in TRIPS) will have to be determined and accepted by the court.

WT/MIN(01)/DEC/2) that sought to address access by the poor in developing countries to life saving medicines and health care, and in particular, compulsory licensing in the case of certain pharmaceutical exports where production under compulsory license was not predominantly for the domestic market as required by Art 31(f): see, for example, Roffe P, Spennemann C and von Braun J, “From Paris to Doha: The WTO Doha Declaration on the TRIPS Agreement and Public Health” in Pedro Roffe, Geoff Tansey and David Vivas-Eugui (eds), *Negotiating Health: Intellectual Property and Access to Medicines* (EarthScan, 2006) pp 9-26.

⁸⁵ (World Trade Organisation, 2000) WT/DS196/1. This request was joined by the European Communities (WT/DS196/2) and Switzerland (WT/DS196/3).

⁸⁶ (World Trade Organisation, 2000) WT/DS196/4 at p 2.

Following TRIPS the Australian Government entered into the AUSFTA that further limit the potential scope of TRIPS (so-called “TRIPS-plus” provisions).⁸⁷ These “TRIPS-plus” provisions might further restrict the circumstances when a compulsory license might be granted in Australia, in particular, because Australia is required to afford the same treatment to *all* patent holders.⁸⁸ In dealing with the compulsory licensing of patents, AUSFTA also confines the possible scope using the TRIPS terminology “other use without the authorization of the right’s holder”.⁸⁹ Article 17.9.7 of AUSFTA provides *only* two circumstances where this “other use” might be allowed, the first addressing anti-competitive conduct and the second addressing Crown use (government use) of the patented invention:

A Party shall not permit the use⁹⁰ of the subject matter of a patent without the authorisation of the right holder except in the following circumstances:

- (a) to remedy a practice determined after judicial or administrative process to be anti-competitive under the Party’s laws relating to prevention of anti-competitive practices.⁹¹
or
- (b) in cases of public non-commercial use, or of national emergency, or other circumstances of extreme urgency, provided that⁹²

⁸⁷ See AUSFTA, Arts 17.1.1 and 17.1.6. For an over view of these developments and arrangements see, for examples, Arup C, “The United States-Australia Free Trade Agreement – The Intellectual Property Chapter” (2004) 15 *Australian Intellectual Property Journal* 205 at 220-223; Lawson C and Pickering C, “‘TRIPS-Plus’ Patent Privileges – An Intellectual Property ‘Cargo Cult’ in Australia” (2004) 22 *Prometheus* 355 at 357-361.

⁸⁸ See TRIPS, Art 4; AUSFTA, Art 17.1.6. The effect of re-stating the “national treatment” requirement that Australia and the United States extend the same treatment to each other’s national as it’s own in AUSFTA, Art 17.1.6 and relying on the “most favoured nation” requirement in TRIPS, Art 4 that Australia accord the same treatment to all other World Trade Organisation Members means that Australia must probably impose the AUSFTA standards on *all* patent holders: see, for example, Lawson C, “Regulating Access to Biological Resources: The Market Failure for Biodiversity Conservation” (2006) 24 *Law in Context* 137 at 154-155.

⁸⁹ TRIPS, Art 31; AUSFTA, Art 17.9.7.

⁹⁰ The footnote providing, in part: “[u]se’ in this paragraph refers to use other than that allowed under para 3 and Art 30 of the TRIPS Agreement”: AUSFTA, Art 17.7.7 footnote 17-[22].

⁹¹ The footnote providing, in part: “[w]ith respect to sub-para (a), the Parties recognize that a patent does not necessarily confer market power”: AUSFTA, Art 17.7.7 footnote 17-[23].

⁹² Notably AUSFTA, Art 17.9.7(b) addresses Crown use: see *Patents Act 1990* (Cth), ss 163-172.

Most significantly, a plain and literal interpretation of the AUSFTA provision does not appear to include a compulsory licensing remedy where the patent holder refuses to make the patent protected product or use of the process (or method) available *unless* there is a breach of the competition laws.⁹³ However, the Australian Government has advised that it “does not intend to amend the existing test in the light of the AUSFTA” suggesting that the other grounds for granting a compulsory license remain available.⁹⁴ The interpretive approach preferred by the Australian Government appears to be that the term “anti-competitive practices” addressed in AUSFTA should be interpreted broadly so as to cover the existing compulsory license provisions under the *Patents Act*, and this will include “the grant of a compulsory license if, among other conditions, “the reasonable requirements of the public” have not been met”.⁹⁵ However, this does not appear to be a consistent proposition, the Australian Government also saying about AUSFTA:

In order to comply with our AUSFTA obligations, a compulsory license cannot be granted in order to promote competition against a patentee – it must be confined to remedying anti-competitive practices.⁹⁶

And about the amendment to the *IPLA Act*:

It is noted that the specific test proposed by the [Ergas] Committee, and also recommended by the [Weisbrot Committee], is not aimed at addressing anti-competitive practices on the part of a

⁹³ In particular, this does not appear to address the circumstance where a compulsory license might be granted to promote competition against a patentee, such as, for example, where a patentee has tried for a reasonable period for an authorization on reasonable terms and condition, the reasonable requirements of the public with respect to the patented invention have not been satisfied, and the patentee has given no satisfactory reason for failing to exploit the invention: *Patents Act 1990* (Cth), s 133(2)(a). See Senate Economics Legislation Committee, n 47, p 38.

⁹⁴ Weisbrot Committee, n 6, p 617. Similarly the Australian Government has stated: “and it is not anticipated that major changes to the *Patents Act 1990* (Cth) will be needed to implement the [AUSFTA]” and “Art 17.9 also contains a number of provisions relating to ... compulsory licensing which generally reflect current Australian law”: Department of Foreign Affairs and Trade, *Australia – United States Free Trade Agreement: Guide to the Agreement* (Department of Foreign Affairs and Trade, 2004) pp 99 and 100 respectively.

⁹⁵ Senate Economics Legislation Committee, n 47, p 46.

⁹⁶ Senate Economics Legislation Committee, n 47, p 38.

patentee. Rather, it is aimed at promoting competition. Indeed, the [Ergas] Committee considered that a compulsory license would only be granted if the enhancement of competition in the relevant market that would be secured by grant of the compulsory license was material and substantial. A test aimed at promoting competition would not be consistent with Australia's international obligations under the AUSFTA.⁹⁷

In both instances, it is difficult to imagine how awarding a compulsory license would not promote competition against the patent holder – restricting access is the fundamental role of a patent and a compulsory license relaxes that restricted access. Perhaps significantly, AUSFTA itself provides:

Each Party shall, at a minimum, give effect to this [Intellectual Property] Chapter. A Party may provide more extensive protection for, and enforcement of, intellectual property rights under its law than this Chapter requires, provided that the additional protection and enforcement is not inconsistent with this Agreement.⁹⁸

While there seems little doubt that the *IPLA Act* amendment is directed to providing a remedy following a finding of anti-competitive conduct under Pt IV of the *Trade Practices Act*, it is not so clear that the effect of AUSFTA will not limit the available scope for patent compulsory licenses, perhaps taking into account the likely competition against the patent holder (and their licensees and assignees). This analysis, however, is made more complicated by the uncertain effect of TRIPS and the Paris Convention 1967, and the subsequent effect of AUSFTA on those existing obligations. In short, the potentially limiting role of AUSFTA and TRIPS (and the Paris Convention 1967) will have to be considered and determined by the court applying the *Patents Act*.

Additional restrictions

In addition to the uncertainties imposed by assessing the likely effect of the inherent discretion and the interpretation of Australia's binding international agreements, the *Patents Act* provision itself imposes structural restrictions. The Federal Court is limited by the *Patents Act* to ordering the patent holder to grant "a license to *work* the

⁹⁷ Senate Economics Legislation Committee, n 47, p 39.

⁹⁸ AUSFTA, Art 17.1.1.

patented invention”.⁹⁹ The term “work” is defined to mean “make or import the product”, “use the method or process” and “make or import” the product of the “method or process”.¹⁰⁰ Significantly, this does not include the other essential elements of a patentee’s “exclusive rights”.¹⁰¹ That is, to “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 those things”, or where the invention is a method or process, to “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 those things” the product of the method or process.¹⁰²

Without the opportunity to do more than make or import the patented invention, or the product of the patented method or process, the usefulness of the *Patents Act* compulsory license is most probably illusory. While there is precedent for defined words in the *Patents Act* having different meanings,¹⁰³ this would need to be argued and accepted by a court in interpreting this provision.¹⁰⁴ Such an argument would appear to have some prospects given the historical origins of the term “work” in the context of compulsory licensing, especially under the Paris Convention 1967 Art 5A. Further, AUSFTA Art 17.9.7 contemplates “use” without the authorisation of the patent holder where use was highlighted to mean the broad ambit of “exclusive rights” proscribed by TRIPS Art 28 including making, using, offering for sale, selling, or importing the product, using the process, and using, offering for sale, selling, or

⁹⁹ *Patents Act 1990* (Cth), s 133(1).

¹⁰⁰ *Patents Act 1990* (Cth), sch 1 (“work”).

¹⁰¹ *Patents Act 1990* (Cth), s 13(1).

¹⁰² *Patents Act 1990* (Cth), sch 1 (“exploit”).

¹⁰³ For example, the term “invention” in the context of the *Patents Act 1990* (Cth), s 18(1) is defined in sch 1 to mean “any manner of new manufacture the subject of letters patent and grant of privilege within s 6 of the *Statute of Monopolies*, and includes an alleged invention”, while in the context of the *Patents Act 1990* (Cth), s 40(2) means “the embodiment which is described, and around which the claims are drawn”: *Kimberly-Clark Australia Pty Ltd v Arico Trading International Pty Ltd* (2001) 207 CLR 1 at 15 (Gleeson CJ, McHugh, Gummow, Hayne and Callinan JJ).

¹⁰⁴ See, for example, *Patents Act 1990* (Cth), s 135(1)(c) provides: “if the patented invention is not being worked in Australia on a commercial scale, but is capable of being worked in Australia”.

importing the product of the process.¹⁰⁵ However, and perhaps significantly, the term “worked” is used in the definition of “the reasonable requirements of the public with respect to the patented invention” and there most probably refers only to “manufacture” and “sale” rather than “use”, “hire”, “offer to make”, and so on.¹⁰⁶ This analysis suggests that there are prospects for such an argument, but it would need to be made and accepted by a court and that is not certain.

Once there is a finding of a contravention of the *Trade Practices Act*, any compulsory licensing remedy under the *Patents Act* will also be confined to the additional restrictions that the compulsory license be non-exclusive,¹⁰⁷ and “be assignable only in connection with an enterprise or goodwill in connection with which the license is used”.¹⁰⁸ Further, in making any order the court is required to include an amount paid to the patent holder “determined by the Federal Court to be just and reasonable having regard to the economic value of the license and the desirability of discouraging contraventions of Pt IV of the *Trade Practices Act*”.¹⁰⁹ While these restrictions may be of little consequence, they do potentially restrict the scope of a court crafted remedy addressing the particular circumstances of the contravention, and are not as unrestricted as the existing broad remedy provisions in the *Trade Practices Act*, such as injunctions,¹¹⁰ undertakings,¹¹¹ or “such order or orders as it [the court] thinks appropriate”.¹¹²

¹⁰⁵ Although this is not unlimited, as AUSFTA’s contemplation of “use” probably excludes any other “limited exceptions” that might otherwise be allowable under TRIPS, Art 30.

¹⁰⁶ See *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corporation* (1969) 119 CLR 572 at 577 where Justice Menzies found on the evidence that the bolt guns were not being manufactured and sold in Australia at the date of the application. Notably, under the *Patents Act 1952* (Cth), ss 108(3) and (3A) provided for an order “on such terms as ... the court thinks just” except not the exclusive right “to make, use, exercise and vend the patented invention” respectively. See also *Levenstein’s Petition* (1898) 15 RPC 732; *Fette’s Patent* [1961] RPC 396; *Enviro-Spray System Inc’s Patent* [1986] RPC 147.

¹⁰⁷ *Patents Act 1990* (Cth), s 133(3)(a).

¹⁰⁸ *Patents Act 1990* (Cth), s 133(3)(b).

¹⁰⁹ *Patents Act 1990* (Cth), s 133(5)(b).

¹¹⁰ *Trade Practices Act 1974* (Cth), s 80.

¹¹¹ *Trade Practices Act 1974* (Cth), ss 80 and 87B.

¹¹² *Trade Practices Act 1974* (Cth), s 87.

Conclusions

Patent compulsory licensing under the *Patents Act* as a remedy for contravention of the *Trade Practices Act* might superficially appear desirable. However, the assessment in this article suggests that in practice the remedy may not be so appealing. The article demonstrates that the discretion may not be exercised for reasons that may be outside the knowledge of an applicant, that the scope of a compulsory license order is limited, that there are significant difficulties with treaty interpretation, and that there are particular difficulties with the restrictive terminology and other provisions in the *Patents Act* limiting the scope of any compulsory license order. Perhaps the provision is like previous patent compulsory licensing provisions, “so hedged with qualifications, discretion on the part of the court, difficulties of proof, and expense, that to petition would be too onerous or useless”.¹¹³ This seems especially likely as many of these concerns about the *Patents Act* might be avoided by pursuing the same, or an arguably superior, remedy already available under the *Trade Practices Act*. Perhaps the Industrial Property Advisory Committee was correct in recommending in 1984 that the “more logical” approach was to provide for compulsory licensing provisions for contravention of Pt IV of the *Trade Practices Act* within that Act.¹¹⁴ The merit of this approach has been the broad scope to craft a remedy under the current *Trade Practices Act* is suited to the particular circumstances and designed to alleviate the anti-competitive effects of the contravening conduct.

¹¹³ Stonier Committee, n 3, p 28. See also *Bristol-Myers Squibb Co v FH Faulding & Co Ltd* (2000) 170 ALR 439 at 480 (Finkelstein J) (making brief reference to the provisions and commenting that “they may be cumbersome and expensive to apply”).

¹¹⁴ Stonier Committee, n 3, p 30.