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OF AUSTRALIA

Business Law Section

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24 June 2015

Dear Mr Portelli,

Exclusive Licensees under the Patents Act

I have pleasure in enclosing a submission regarding exclusive licensees under the Patents Act which has been prepared by the Intellectual Property Committee of the Business Law Section of the Law Council of Australia.

If you have any questions regarding the submission, in the first instance please contact the Committee Chair, Sue Gilchrist on 02- 9296 2166 or via email: sue.gilchrist@hsf.com

Yours faithfully,

John Keeves, Chairman
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Enc.

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SUBMISSION TO THE PATENTS CONSULTATION GROUP

IP AUSTRALIA

1. SUMMARY

1. Recent judicial interpretation¹ of the meaning of an exclusive licensee under the *Patents Act 1990* (Cth) (the **Patents Act**) is inconsistent with the typical commercial use and understanding of this term. As such, the interpretation given by the courts has the potential to undermine a large number of significant patent transactions in Australia. Our submissions consider the recent decisions and their commercial ramifications, the historical background to exclusive licences, and alternative approaches that exist in other intellectual property regimes in Australia and worldwide.
2. The basic question to consider in these submissions is whether an "exclusive licensee" as defined by the Patents Act should be limited to only one licensee with all of the rights to exploit the patented invention, as espoused by the recent authorities, or whether the definition should include a licensee with exclusive rights to perform only some act(s) in relation to the patented invention.
3. Our primary recommendation (Option 9(c) below) is that the definition of "exclusive licensee" under the Patents Act should be expanded to include any licensee with exclusive rights to perform one or more acts within the rights conferred by the patent. This will mean that any licensee who could expect exclusivity in a particular act will have standing to commence proceedings against an infringing party. This recommendation would be relatively simple to implement, would address adverse commercial ramifications of the current court interpretation, and would be in compliance with Australia's obligations under the AU-US Free Trade Agreement.

2. EXCLUSIVE LICENSEES UNDER THE PATENTS ACT

4. Under Schedule 1 of the Patents Act, an "exclusive licensee" is defined to mean:

a licensee under a licence granted by the patentee and conferring on the licensee, or on the licensee and persons authorised by the licensee, the right to exploit the patented invention throughout the patent area to the exclusion of the patentee and all other persons.

where exploit, in relation to an invention which is a product, is defined as:

make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things.

5. Exclusive licensees are given numerous rights above and beyond that of other licensees under the Patents Act, including the right to:
 - a) Consent or withhold consent to amendments of the complete specification (s 103);
 - b) Commence infringement proceedings (s 120(1)). The patentee must be joined as a defendant unless joined as a plaintiff (s 120(2));

¹ *Bristol-Myers Squibb Company v Apotex Pty Ltd (No 5)* [2013] FCA 1114 (**BMS v Apotex – First Instance**) and *Bristol-Myers Squibb Company v Apotex Pty Ltd* [2015] FCAFC 2 (**BMS v Apotex – Appeal**) (together, **BMS v Apotex**).

- c) Contest non-infringement declarations (s 124); and
 - d) Contest the grant of a compulsory licence (s 139).
6. Before the recent decisions in *BMS v Apotex*, only a few cases had considered the meaning of "exclusive licensee" under the Patents Act or its historical equivalents. The earlier authorities were conveniently summarised in *BMS v Apotex – First Instance*² and *BMS v Apotex – Appeal*³, and it is not necessary to repeat the summaries here. Currently, the decision in *BMS v Apotex – Appeal* is binding on all first instance decisions in the Federal Court of Australia. It is far from certain that the High Court would disturb that interpretation.

3. *BMS V APOTEX*

3.1 First instance decision

7. Bristol-Myers Squibb Company (**BMS**) commenced proceedings against Apotex Pty Ltd (**Apotex**) for patent infringement. BMS believed that it was an exclusive licensee, arising from a commercialisation agreement between itself and the patentee, Otsuka Pharmaceutical Co., Ltd. Under this agreement, BMS was given the exclusive rights to advertise, market, promote, sell and distribute products containing aripiprazole in Australia. Otsuka Pharmaceutical Co., Ltd, however, retained the worldwide right to manufacture aripiprazole.
8. Apotex challenged BMS's standing to commence patent infringement proceedings on the basis that BMS was not an exclusive licensee under the Patents Act. Justice Yates agreed, finding that:
- a) Under s 13(1) of the Patents Act, a patent gives the patentee the exclusive rights to exploit the invention and to authorise another person to exploit the invention. Thus only two rights are conferred by the patent: to exploit, and to authorise another to exploit (at 436).
 - b) The High Court's approach to the definition of "exclusive licensee" under the *Patents Act 1952* (Cth) was that there could only be one exclusive licensee who possessed all the rights of, and to the exclusion of, the patentee (*Ex parte British Nylon Spinners Limited and Imperial Chemical Industries Limited* (1963) 109 CLR 336 (*British Nylon Spinners*), discussed at 340).
 - c) Applying the reasoning of the High Court in *British Nylon Spinners*, the phrase "the right to exploit" in the definition of an "exclusive licensee" means that the invention confers a single, undivided right of exploitation that can belong to either the patentee or an exclusive licensee, but not both or more than one exclusive licensee (at 435-436).
 - d) The inclusive, disjunctive definition of "exploit" does not create separate rights with respect to those activities. Rather, it is a "hypernym" that recognises that the right to exploit covers a range of different activities (at 436).
9. Although Justice Yates found that BMS did not have standing to commence proceedings, the patentee was subsequently joined as an applicant, which prevented Apotex Pty Ltd from challenging the injunction ordered against it. As discussed below, however, Justice

² *BMS v Apotex – First Instance* at 426-431.

³ *BMS v Apotex – Appeal* at [90]-[93].

Yates' finding could have had more serious repercussions to BMS had it been seeking more than an injunction (eg damages or an account of profits).

3.2 Appeal decision

10. BMS appealed the first instance decision and judgment was handed down on 23 January 2015. The Full Court of the Federal Court of Australia, comprising Justices Besanko, Jagot and Nicholas, dismissed the appeal.
11. BMS's primary argument was that the decision in *British Nylon Spinners* should be distinguished because the definition of "exclusive licensee" in the current Patents Act is different to the legislation that was before the High Court. The Full Court dismissed this argument, observing that extrinsic material for the Patents Act did not evidence an intention to change the law regarding exclusive licences. Rather, the Full Court found that the intention of the legislature was to replace the "*archaic or obscure*" language of the older legislation with "*words which were considered sensible and clear*" (at [100]-[101]) (also see section 5.2 below).

4. COMMERCIAL RAMIFICATIONS

4.1 Commercial reality

12. In *BMS v Apotex*, both the first instance judge and the Full Court held that a patentee's right to exploit the invention was a single indivisible right. However, this does not reflect the commercial reality. In practice, a patentee is free to enter into commercial agreements with licensee(s) and to divide its exclusive rights in the invention as it sees fit. In *BMS v Apotex*, the patentee divided its rights by granting exclusive rights to a licensee in respect of some acts of exploitation, but reserving for itself the exclusive right to manufacture the invention. In other situations, a patentee might divide its exclusive right to exploit the invention by geographical location, such that within Australia there are multiple 'exclusive' licensees. For the purposes of this submission, these types of licensees will be referred to as "partial exclusive licensees", whereas exclusive licensees with a single undivided right will be referred to as "undivided exclusive licensees" and licensees with no exclusive right will be referred to as "bare licensees". Collectively, they will be referred to as "licensees".
13. In *BMS v Apotex*, although the partial exclusive licensee was found to lack standing, the commercial consequences were relatively minor. The patentee (who had the requisite standing) was joined to the suit as an applicant, the generic party agreed to an interlocutory injunction and the court eventually found the patent valid and infringed, preventing the generic party from entering the market by the grant of a final injunction. The applicants were not seeking an award of damages. Accordingly, the only consequence to the finding that the licensee lacked standing was that it could not recover its costs of litigation.⁴
14. However, the lack of standing could have more serious consequences for other licensees, in cases where the patentee is not prepared to enter into litigation to enforce the patent or where the licensee is seeking an award of damages. In such cases, a partial exclusive licensee is in a particularly vulnerable position.

⁴ See *Bristol-Myers Squibb Company v Apotex Pty Ltd (No 6)* [2013] FCA 1235: "it would be incongruous to award BMS all its costs of the proceeding when, in my view, it had no entitlement to commence or to prosecute its claims for infringement" per Yates J at [9].

4.2 Interlocutory injunctions

15. In pharmaceutical cases, interlocutory injunctions are routinely obtained to prevent a generic pharmaceutical company entering the market. The general reasoning is that the entry of the generic pharmaceutical will significantly disrupt the market and, as a result, the patentee's damages (if the patentee is successful in the proceedings) are likely to be large and difficult to quantify.
16. However, if the patentee has exclusively licensed a relevant part of its rights to a partial exclusive licensee, the resultant damage that is likely to be suffered by the patentee may be limited to a reasonable royalty only. This royalty may be simple to calculate under the terms of the existing license.
17. In contrast, a partial exclusive licensee who has the exclusive right to sell the patented product in Australia but no other exclusive right in relation to that patent may well suffer the type of damage that is generally considered sufficient by the courts when granting pharmaceutical patent interlocutory injunctions. Thus, there may be significant consequences for this type of licensee if they are prevented from joining the patent infringement action and, while a court may consider the interests of third parties (such as a partial exclusive licensee), this may nevertheless tip the balance of convenience against awarding an interlocutory injunction.
18. In *BMS v Apotex*, the applicants were seeking an injunction to prevent the infringing party from coming onto the market. However, the patentee became a party to the action and Apotex agreed to an interlocutory injunction. As such, there was no need for the court to make a decision in relation to the grant of an interlocutory injunction. As a consequence, this type of scenario has not yet been considered by an Australian court.

4.3 Damages awards

19. Leaving pharmaceutical patent litigation to one side, however, in most instances of patent infringement, the ability to recover damages for past sales is an important basis for commencing proceedings. Where the patentee is licensing its rights in the invention, both the patentee and licensee(s) may be suffering damage as a result of the infringement. In exclusive licensing arrangements (whether partial or undivided), the bulk of the damage is likely to be suffered by the licensee(s), as a result of sales lost to the infringer. The patentee also suffers damage, generally in the result of lost royalties that would otherwise be payable by the exclusive licensee(s).
20. In the case of an exclusive licensee (whether partial or undivided), the value of the royalties lost by the patentee will usually be less significant than the value of the sales lost by the exclusive licensee. However, under the current position, the partial exclusive licensee will not have standing to commence proceedings and so only the patentee's damages will be reflected in a damages award in that instance. Accordingly, any damages award made against the infringer will not accurately reflect the damages suffered by all injured parties and it is the partial exclusive licensee who suffers the unrecoverable loss.

Legal costs

21. A partial exclusive licensee may incur costs during the proceeding. For example, the partial exclusive licensee may incorrectly commence proceedings in its own name (as was the case in *BMS v Apotex*). Furthermore, regardless of whether a partial exclusive licensee incorrectly commences proceedings in its own name or not, they will likely have

an incentive to ensure that any infringement proceedings are successful and, therefore, may incur costs in their efforts to assist the patentee.

22. The licensee will not be able to recover its legal costs incurred in either of these scenarios, even if the patent is eventually found to be valid and infringed.

4.4 License agreements

23. The decision in *BMS v Apotex* has significant implications for new and existing license agreements.
24. When entering into new license agreements, the patentee and licensee will need to negotiate precise terms of their respective rights and obligations in the event that either party wishes to enforce the patent.
25. It should be noted that the commercial situation under the license in *BMS v Apotex*, where the patentee divided its exclusive rights in the invention, could have been achieved under a different structure of license agreement. In principle, the patentee could have granted the licensee exclusive rights to exploit the invention, and the licensee could then have sub-licensed many of those rights (including the right to manufacture) back to the patentee. Although this may have resulted in the same commercial effect, it may also have resulted in a different finding on standing.
26. Accordingly, if the current approach remains unchanged, license agreements may need to become more convoluted, to ensure that both the patentee and the licensee have the ability to commence proceedings.
27. Furthermore, existing agreements may need to be reviewed and modified to ensure they accurately reflect the position agreed between the parties. This is especially problematic in circumstances where the parties can no longer achieve, at law, what they may have intended in their agreement. For example, if a contract was negotiated on the understanding that a partial exclusive licensee had the right to bring an action for infringement, then there is no way to rectify the contract to hold the parties to their bargain absent fundamentally changing the rights of the respective parties. This may cause significant problems to commercial relationships.

5. HISTORICAL BACKGROUND

5.1 Early UK position

28. The *Patents Act 1883* (UK) did not define the concept of an exclusive licence or an exclusive licensee. Early UK courts found that an exclusive licensee had no property rights in the patent and could not enforce the patent in its own name, without joining the patentee. As observed by Fry LJ in *Heap v Hartley* (1889), 42 Ch.D. 461 at 470 (***Heap v Hartley***):

The Plaintiff in this case sues under an exclusive license to use a certain invention for a certain time, and within a limited district. He sues a person who he says is using that patented invention within the district, and without his license. Now he puts his case in a two-fold manner. He says: "In the first place, as exclusive licensee, I am in the position of an assign of the letters patent for that district and for that term, and as an assign of letters patent, I have a right to restrain any person who is infringing within the district." That argument appears to be based on an entire error with regard to the nature of a license. An exclusive license is

only a license in one sense; that is to say, the true nature of an exclusive license is this. It is a leave to do a thing, and a contract not to give leave to anybody else to do the same thing. But it confers like any other license, no interest or property in the thing. A license may be, and often is, coupled with a grant, and that grant conveys an interest in property, but the license pure and simple, and by itself, never conveys an interest in property. It only enables a person to do lawfully what he could not otherwise do, except unlawfully. I think, therefore, that an exclusive licensee has no title whatever to sue. [emphasis added]

29. The legislation was subsequently amended to clarify the meaning of an exclusive licensee. Under section 101 of the *Patents Act 1949* (UK), an "exclusive licence" was defined to mean:

a licence from a patentee which confers on the licensee, or on the licensee and persons authorised by him, to the exclusion of all other persons (including the patentee), any right in respect of the patented invention, and "exclusive licensee" shall be construed accordingly;

30. As explained in *Re Courtauld's Application* [1956] RPC 208, this definition permits "*a plurality of exclusive licensees to be created in respect of any one patent monopoly*" (at 210). The *Patents Act 1949* (UK) also conferred a right on exclusive licensees to commence proceedings for patent infringement and to recover damages, provided that the patentee is joined to the proceedings either as a plaintiff or a defendant (s 63).
31. This definition of "exclusive licence" has been retained in section 130 of the modern *Patents Act 1977* (UK). This Act also requires an exclusive licensee to register its licence within six months of the transaction date, in order for the exclusive licensee to recover damages or an account of profits for patent infringement (s 68).

5.2 Early Australian position

32. The *Patents Act 1903* (Cth) did not define the scope of an exclusive licensee. The introduction of a definition, as well as clarifying the rights of an exclusive licensee, was considered one of "*the more important amending provisions*" in the *Patents Act 1952* (Cth).⁵
33. Under the *Patents Act 1952* (Cth), an "exclusive licensee" was defined to mean (s 6):
- a licensee under a licence granted by the patentee which confers on the licensee, or on the licensee and persons authorized by him, the right to make, use, exercise and vend the patented invention, throughout Australia, to the exclusion of all other persons, including the patentee;*
34. Despite the stated purpose of the amendments to bring the legislation "*up to date with the English legislation*" and "*in conformity with English and international ideas of patent law*",⁶ there is no explanation for the differences in the definition of exclusive licensee under the Australian provision and under the *Patents Act 1949* (UK).
35. The Australia patent system was again reformed in 1989 with the introduction of the *Patents Bill 1989* (Cth). The current form of the provisions under the Patents Act is set out in section 2 above. The term "*make, use, exercise and vend the patented invention*" from the *Patents Act 1952* (Cth) was considered "obscure" and did not cover methods and

⁵ Second Reading Speech for the Patents Bill 1952 on 3 June 1952, page 1241.

⁶ Second Reading Speech for the Patents Bill 1952 on 6 August 1952, pages 50, 51.

processes.⁷ To overcome this, the inclusive concept "exploit" was introduced. As noted by the Full Court in the *BMS v Apotex – Appeal*, "the extrinsic material suggests that the purpose of the change was to remove language (that is, "make, use, exercise and vend") which was considered archaic or obscure, and replace it with words which were considered sensible and clear" (at [100]).

6. PROTECTION IN EQUITY

6.1 Equitable interest of unregistered assignees

36. It is accepted that the Patents Act does not prohibit the creation of equitable interests in registered patents.⁸ For example, where the patentee assigns the exclusive rights of the invention to an assignee, but the assignment is not registered, the assignee is the equitable owner of the patent and the patentee may bring infringement action for the benefit of the assignee. Similarly, the equitable owner can sue in the name of the patentee, with an appropriate indemnity for the patentee's costs.⁹
37. Under section 14(2) of the Patents Act, a patent may be assigned for a place in, or part of, the patent area. If the patentee assigns the exclusive rights of the patent to company X in Victoria and company Y in New South Wales, and these assignments are not registered, then it follows that companies X and Y have an equitable interest in the patent along with the legal interest of the registered patentee. Therefore, it is implicit that the Patents Act recognises that there could be more than one equitable owner of a patent.

6.2 Equitable interest of exclusive licensees of one or more rights of the patentee

38. It is not clear whether a partial exclusive licensee could establish an equitable interest in the patent based on its right to exclusively exploit one aspect of the invention. Arguably, an analogy may be drawn between the equitable rights of a partial exclusive licensee and those of an unregistered assignee for a particular geographical area. However, such an argument has not yet been tested in court and, therefore, the partial exclusive licensee's position in equity is uncertain.

7. OVERVIEW OF OTHER ANALOGOUS AUSTRALIAN LEGISLATION

7.1 Trade marks

Authorised users

39. The power of a registered trade mark owner to authorise another party to use a registered trade mark is derived from section 20(1)(b) of the *Trade Marks Act 1995* (Cth) (**Trade Marks Act**). An authorised user under the Trade Marks Act is a person who uses the trade mark under the control of the registered owner.¹⁰ Whilst authorisation will commonly arise under a written license agreement, this is not a requirement under the Trade Marks Act. Rather, the focus is on whether the registered owner has control over the authorised use. The relationship between the registered owner and the authorised user need not be exclusive.

⁷ Supplementary Explanatory Memorandum for the Patents Bill 1989.

⁸ See eg *Stack v Brisbane City Council* (1996) 139 ALR 174; *Reilly v Commissioner of Patents* (1996) 36 IPR 314.

⁹ *Stack v Brisbane City Council* (1996) 139 ALR 174.

¹⁰ Section 8(1) of the Trade Marks Act.

An authorised user's standing to sue for trade mark infringement

40. Section 26(1)(b) of the Trade Marks Act enables authorised users to bring an action for infringement of the relevant trade mark in certain circumstances. Evidence of the authorised user relationship, the use by the authorised user and the level of control over such use must be adduced and considered in any infringement proceedings brought by an authorised user.¹¹
41. Subject to any agreement between the registered owner of a trade mark and the authorised user, the authorised user may bring an action for infringement:¹²
- a) at any time with the consent of the registered owner;
 - b) if the registered owner refuses to bring an action; or
 - c) if the registered owner has failed to bring an action within two months of the authorised user requesting that the registered owner bring an action for infringement.¹³
42. If the authorised user brings an action for trade mark infringement, the authorised user must make the registered owner of the trade mark a defendant in the action. However, the registered owner is not liable for costs if he or she does not take part in the proceedings.¹⁴
43. Section 26(1)(b) of the Trade Marks Act provides that the authorised user and the registered owner can determine their own terms under which an action for infringement can be brought. As per Lahore¹⁵ at [61,390]:

the statutory right of the authorised user to bring an action for infringement is subject to, and limited by, the terms of any agreement with the registered owner. The terms of any such agreement will be a matter for the owner and the user. The agreement may permit the user to bring proceedings, may prohibit such action, or may specify a notification or complaint procedure to be followed. The balance struck will depend upon the relative interests and capabilities of each of the owner and authorised user.

44. Thus, unlike the situation under the Patents Act, authorised users and registered owners of trade marks have the ability to negotiate their own terms under which an action for infringement can be brought and any authorised user (rather than an exclusive licensee) has the capacity to determine their own rights to bring an action for infringement. However, there must still be evidence placed before the court of both the authorised user relationship and the use by the authorised user in order to establish standing in an infringement proceeding.

7.2 Copyright

The meaning of exclusive licensee

¹¹ *Electrolux Home Products Pty Ltd v Delap Impex Kft and Others* (2015) 110 IPR 164 at [21]-[22]

¹² Section 26(1)(b) of the Trade Marks Act.

¹³ The period in which action for infringement may be brought is governed by Regulation 3.2 of the *Trade Mark Regulations 1995* (Cth).

¹⁴ Section 26(2) of the Trade Marks Act.

¹⁵ Dwyer, J., Dufty, A., Garnsey, J., Lahore, J. *Patents, Trademarks and Related Rights* (LexisNexis, subscription service).

45. Under the *Copyright Act 1968 (Cth)* (**Copyright Act**),¹⁶ an exclusive licence is defined as a licence in writing, signed by or on behalf of the owner or prospective owner of copyright, authorising the licensee to do an act within the copyright to the exclusion of all other persons.
46. An exclusive licence can be granted in relation to particular acts, particular places or parts of Australia or for a particular period of time.¹⁷ In other words, "exclusive licensee" under the Copyright Act refers to partial exclusive licensees. As a consequence, there may be multiple exclusive licensees with the right to perform different acts within the copyright to the exclusion of all other persons.
47. Generally, in order to be exclusive, the right to do the particular act must be to the exclusion of "all other persons" including the copyright owner.¹⁸ However, "[t]here is also authority that the reservation to the owner of the copyright of 'a carefully restricted right of supply' is not necessarily inconsistent with the grant of an exclusive licence within the meaning of the Copyright Act: *Young v Odeon Music House Pty Ltd* (1976) 10 ALR 153 at 162".¹⁹ In *Young v Odeon Music House*, the New South Wales Supreme Court considered that the copyright owner's retention of a right to supply to areas of Australia that the licensee did not supply the copyright materials to, did not deprive the copyright licence of its exclusivity. However, this principle has not been reconsidered by a recent court.
48. Thus, the definition of an exclusive licensee under the Copyright Act is similar to the current situation under the Patents Act in that it must be to the exclusion of the copyright owner as well as all other persons, although there is plausibly a difference between the situation under the Copyright Act in circumstances where the copyright owner is entitled to cover a "gap" in supply.
49. However, unlike the current situation for exclusive patent licences, exclusive copyright licences only relate to one or more particular acts, rather than the doing of all possible acts.

An exclusive licensee's standing to sue for copyright infringement

50. Under section 119(a) of the Copyright Act, an exclusive licensee has the same rights of action for copyright infringement and is entitled to the same remedies as if the licence had been an assignment.²⁰ These rights are concurrent with the rights and remedies of the copyright owner. Thus, both the copyright owner and the exclusive licensee are entitled to bring an action for copyright infringement and seek an injunction, damages or an account of profits in accordance with section 115 of the Copyright Act.
51. On the other hand, any defendant to an action brought by an exclusive licensee is entitled to rely on the same defences under the Copyright Act that would have been available to the defendant had the action been brought by the copyright owner.²¹ As a consequence, an exclusive licensee will not be able to sue for copyright infringement if the acts of the alleged infringer were authorised by the copyright owner.

¹⁶ This paper only considers the position of the exclusive licensee in proceedings where the licence was granted after 1 May 1969.

¹⁷ *Sega Enterprises Ltd v Galaxy Electronics Pty Ltd* (1998) 39 IPR 577 at 580-581.

¹⁸ *Young v Odeon Music House Pty Ltd* (1976) 10 ALR 153 at 161.

¹⁹ *Sega Enterprises Ltd v Galaxy Electronics Pty Ltd* (1998) 39 IPR 577 at 581.

²⁰ Section 119(a) prohibits an exclusive licensee from bringing an infringement action against the copyright owner themselves.

²¹ Section 121 of the Copyright Act.

52. Where the exclusive licensee and the copyright owner have concurrent rights of action for copyright infringement, neither party can proceed with the action unless the other party is joined as a plaintiff or added as a defendant (unless leave from the court is given).²² However, this does not affect the granting of an interlocutory injunction on the application of either the copyright owner or the exclusive licensee.²³
53. Where an exclusive licensee or a copyright owner are added as a defendant, the party so added is not liable for any costs in the action unless that party enters an appearance and takes part in the proceedings.²⁴

Bare licensees and copyright infringement

54. The Copyright Act makes no express provision for the bringing of an action for copyright infringement by anyone other than an exclusive licensee and the copyright owner. As a consequence, it is likely that a bare licensee has no right to bring proceedings for copyright infringement in its own name, regardless of whether it joins the copyright owner in the proceedings. The Federal Court in the case of *Sega Enterprises Ltd v Galaxy Electronics Pty Ltd*²⁵ and the NSW Supreme Court in *Young v Odeon Music House Pty Ltd*²⁶ inferred by way of obiter that a non-exclusive licensee may have standing to bring an action for copyright infringement. However, the passages relied upon from the Halsbury's Laws of England are no longer retained in the 2006 edition²⁷ and the ability for a non-exclusive licensee to bring an action for copyright infringement appears to be directly at odds with the Copyright Act.

7.3 Designs

55. The registered owner of a design has the right to authorise a third party to perform any of the acts permitted by section 10(1) of the *Designs Act 2003* (Cth) (**Designs Act**).²⁸ However, the Designs Act does not expressly grant any entity, other than the registered owner, the right to sue for infringement.²⁹ As a consequence, there is no legislative provision in Australia that provides an exclusive licensee with standing to sue for design infringement.
56. In a letter to IP Australia dated 18 November 2014, the Intellectual Property Committee of the Business Law Section of the Law Council of Australia proposed that an amendment be made to the Designs Act to permit an exclusive licensee of a right granted under the Designs Act to sue third parties for infringement of the right. It was proposed that the amendment reflect the equivalent provision in the Copyright Act (see above).

7.4 Plant Breeders Rights

57. Section 11 of the *Plant Breeder's Rights Act 1994* (Cth) (**PBR Act**) gives the grantee of a PBR the right to license another person to do any of the acts permitted by section 11 of the PBR Act. However, section 54(1) of the PBR Act specifically provides that the grantee is the only entity that can begin an action for infringement of a plant breeders rights (**PBR**). As a consequence, there is no legislative provision in Australia that provides an exclusive licensee with standing to sue for infringement of a PBR.

²² Section 120(1) of the Copyright Act.

²³ Section 120(2) of the Copyright Act.

²⁴ Section 125 of the Copyright Act.

²⁵ (1998) 39 IPR 577 at 581-582.

²⁶ (1976) 10 ALR 153 at 162.

²⁷ Lahore at [24,025].

²⁸ Section 10(1) of the Designs Act.

²⁹ Section 73(1) of the Designs Act.

58. In a letter to IP Australia dated 18 November 2014, the Intellectual Property Committee of the Business Law Section of the Law Council of Australia proposed that an amendment be made to the PBR Act to permit an exclusive licensee of a right granted under the PBR Act to sue third parties for infringement of the right. It was proposed that the amendment reflect the equivalent provision in the Patents Act. As a consequence, the same issues described above in relation to the Patents Act may equally apply to PBR if the Committee's recommendation was adopted.

8. INTERNATIONAL OVERVIEW

8.1 United States

The meaning of 'exclusive licensee' under US Law

59. Under the US Patent Act, an exclusive licensee can hold one or more of the exclusive rights granted by the patent.³⁰ For example, in the US Federal Circuit Court decision of *WiAV Solutions LLC v. Motorola, Inc.*,³¹ it was stated that "a licensee is an exclusive licensee of a patent if it holds any of the exclusionary rights that accompany a patent" (emphasis added). This is diametrically opposed to the current position in Australia.

Standing to bring patent infringement proceedings

60. Generally, under US law only a patentee and its assignee can commence infringement proceedings.³² However, in relation to licensees, the case law has established that:³³
- a) A bare licensee has no standing at all to bring an action for patent infringement;
 - b) An exclusive licensee can sue for patent infringement if it joins the patentee (however, where the alleged infringer is the patentee itself, the exclusive licensee can sue in its own name to prevent an absolute failure of justice); and
 - c) An exclusive licensee is entitled to commence proceedings in its own name where it holds "all substantial rights" under the patent, and is therefore a de facto "assignee" for the purposes of the US Patent Act.
61. The "exclusive licensee" referred to in (b) above is effectively the partial exclusive licensee that presently has no authority to bring an action for patent infringement under Australian law, whereas the "exclusive licensee" referred to in (c) above is effectively the undivided exclusive licensee.
62. As a consequence, it appears that the US law differs from the Australian law in that:
- a) partial exclusive licensees are considered "exclusive licensees";
 - b) partial exclusive licensees can sue for patent infringement provided they join the patentee; and
 - c) undivided exclusive licensees are entitled to commence proceedings in their own name, without having to join the patentee in the proceedings.

³⁰ 35 U.S.C. § 261; see eg *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873) – "The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee."

³¹ No. 10-1266 (Fed. Cir. Dec. 22, 2010).

³² 35 U.S.C. § 100(d), 281.

³³ See eg *Textile Productions, Inc. v. Mead Corporation* 134 F.3d 1481 (Fed. Cir. 1998).

AU-US Free Trade Agreement

63. Finally, it is to be noted that the current interpretation of "exclusive licensee" conflicts with Australia's obligations under Article 17.11.5 of the AU-US Free Trade Agreement, which provides in footnote 17-[28] that "*the term exclusive licensee shall include the exclusive licensee of any one or more of the exclusive intellectual property rights encompassed in a given intellectual property*".

8.2 Canada

64. Under section 55(1) of the *Patent Act* R.S.C., 1985, c.P-4:

A person who infringes a patent is liable to the patentee and to all persons claiming under the patentee for all damage sustained by the patentee or by any such person, after the grant of the patent, by reason of the infringement. [emphasis added]

65. Canadian courts have interpreted this to mean that exclusive (both partial and undivided) and non-exclusive licensees can bring an action for damages against the infringer of a patent.³⁴ The patentee must be made a party to any proceeding under section 55(1) (s 55(3)).
66. As a consequence, Canadian law differs from the Australian law in that any licensee has the capacity to sue for patent infringement, provided the patentee is made a party to the proceeding.

8.3 UK

67. The position under the *Patents Act 1977* (Cth) is discussed in section 5.1 above.
68. Thus, contrary to the position in Australia, a partial exclusive licensee is considered to be an "exclusive licensee" for the purposes of the UK Act and such licensees are entitled to commence proceedings for patent infringement, provided that the patentee is joined to the proceedings either as a plaintiff or a defendant.
69. Under the UK law, bare licensees are not entitled to commence proceedings for patent infringement.

9. POSSIBLE APPROACHES

70. Based on the overview provided above, there are four general approaches that could be adopted in relation to a licensee's standing to enforce a patent, namely:
- a) maintain the current position in Australia, that is, only allow undivided exclusive licensees to bring an action for patent infringement;
 - b) grant a partial exclusive licensee the capacity to bring an action for patent infringement, but only when the patentee is the sole holder of the remainder of the rights not granted to or shared with the partial exclusive licensee (ie in a situation like *BMS v Apotex* where the patentee retained the right to manufacture, but no additional rights were granted to any other exclusive licensee);

³⁴ *Armstrong Cork Canada v. Domco Industries Ltd.*, [1982] 1 SCR 907, 919; *Apotex v. Abbott*, 2012 ONSC 2104 at [75].

- c) grant both partial and undivided exclusive licensees standing to bring an action for patent infringement; or
- d) grant all licensees, including bare licensees, standing to bring an action for patent infringement.

71. Option 9(c) is the IP Committee's preferred option. Nevertheless, each of these is considered in turn below.

9.1 Approach (a) - maintaining the current position in Australia

72. For the reasons outlined in this submission, maintaining the current position in Australia will result in a number of adverse commercial ramifications for Australian businesses, which have the potential to impact a large number of current and future patent transactions in Australia.

73. The approach is also:

- a) inconsistent with other equivalent intellectual property provisions in Australia (namely the Trade Marks Act and the Copyright Act);
- b) inconsistent with other equivalent overseas patent provisions; and
- c) inconsistent with Australia's obligations under the AU-US Free Trade Agreement.

9.2 Approach (b) – making an exception for certain partial exclusive licensees

74. This approach will maintain the position that only two parties have standing to commence patent infringement proceedings: the patentee and a single exclusive licensee. However, it would expand the concept of an exclusive licensee to include not only undivided exclusive licensees, but also partial exclusive licensees, provided that the remaining rights within the meaning of 'exploit' are held by the patentee.. In other words, this addresses the *BMS v Apotex* scenario where the patentee has retained the right to manufacture (or some other action(s) within the meaning of exploit) but exclusively licensed all other rights to one other party.

75. This approach would grant some partial exclusive licensees standing to sue for patent infringement and resolve some of the commercial ramifications described in this submission for those parties. However, it does not avoid commercial ramifications in situations where there are multiple partial exclusive licensees.

76. Furthermore, the patentee would be in a position to change a partial exclusive licensee's standing, by granting an additional partial exclusive licence for the rights that it retained to a third party. In doing so, the patentee would deprive the original partial exclusive licensee of its right to bring an action for infringement. Whilst the patentee could contractually be prohibited from acting in this manner, the same types of licensing ramifications described in section 4.4 could apply. Further, the approach would not bring Australia into line with its own position in relation to trade marks and copyright or overseas patent provisions. Nor would this approach enable Australia to comply with its international obligations under the AU-US Free Trade Agreement. As a consequence, this approach is not recommended.

9.3 Approach (c) – granting partial and undivided exclusive licensees standing to bring an action for patent infringement

77. This approach would effectively mean that Australian patent law would conform with the approach under the Copyright Act, as well as the approach taken in the US and the UK (subject to the way in which the patentee is treated in the proceeding when an action is brought by a partial or undivided exclusive licensee).
78. By adopting this approach, the commercial ramifications described in this submission would be greatly reduced or removed and Australia would be in compliance with its obligations under the AU-US Free Trade Agreement.
79. Further, the approach could be easily adopted via an amendment to the definition of 'exclusive licensee' in the Patents Act. It is, therefore, recommended that the Patents Act be amended to reflect the UK definition of exclusive licensee or an equivalent definition.
80. This is the IP Committee's preferred option.

9.4 Approach (d) – granting all licensees standing to participate in patent infringement proceedings

81. This approach would mean that any licensee suffering damage as a result of infringement would have standing to participate in infringement proceedings. However, a difficulty with this approach is that a bare licensee cannot expect exclusivity in the patented invention. As such, the bare licensee may not know whether the potential infringer has a license to the invention, is in the process of negotiating a license with the patentee, or has some other commercial relationship with the patentee.
82. This approach should be considered because of its benefit of allowing more injured parties to participate in infringement proceedings. However, it is recommended that any standing of a bare licensee should be subject to conditions that help to avoid litigation being commenced, in circumstances where the bare licensee does not fully appreciate the commercial situation of the patentee. These conditions might include:
- a) requiring a bare licensee to communicate with the patentee prior to commencing proceedings, in a similar manner to the conditions for permitting authorised users to commence proceedings under section 26(1)(b) the Trade Marks Act. This condition could be modified by agreement between the patentee and the bare licensee; or
 - b) allowing a bare licensee to join, but not commence, infringement proceedings. This would avoid situations where the bare licensee could commence proceedings without fully appreciating the commercial situation and would reflect the position that a bare licensee cannot expect exclusivity in the invention. However, this approach would still enable the bare licensee to recover damages in the event of a successful infringement action.
83. Enabling a bare licensee to bring an action for patent infringement would be consistent with the law in Canada but inconsistent with the respective laws in the UK and the US, neither of which currently allow a bare licensee to bring an action for patent infringement.
84. Such an approach would also require modification of the existing infringement provisions of the Patents Act to set out the circumstances in which a bare licensee will have standing to participate in infringement proceedings.