

28 August 2019

Mr Mark Fitt
Committee Secretary
Senate Economics Legislation Committee
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Mr Fitt

Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019

The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (**the Committee**) is pleased to make this submission in relation to the Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019.

Schedule 1, Part 1 - Object of the Act

In its submission of 17 November 2017 to IP Australia's public consultation paper, the Committee identified that:

- a) the Act should be drafted clearly and it should not be necessary, and nor is it generally desirable, to rely on an objects clause to direct construction of the provisions of the Act; and
- b) inclusion of an objects clause would undoubtedly increase uncertainty and that it would not be limited to the "short-term uncertainty" that the PC acknowledged may arise but would persist whereas it was entirely unclear what benefit would be achieved.

The Committee maintains these views.

In relation to the proposed objects clause, the Committee makes the following submissions.

1. **The words "and the transfer and dissemination of technology" should be deleted.** It is entirely unclear how these words are intended to affect the interpretation of operative provisions of the Act. It is to be noted that, on the one hand, the grant of a patent forms a strong basis for the dissemination of technology (through publication and commercialisation) whereas, on the other hand, it may be argued that refusing the grant of a patent likewise promotes dissemination of technology. Given this dichotomy, it is unclear what is intended by these words. The objects clause would be improved if they were to be deleted.

2. **The objects clause should include a reference to a purpose of the Act being to comply with Australia's international obligations.** In the Committee's submission, this would provide a more complete description of the purposes of the Act recognising that the Act implements Australia's obligations under the Paris Convention, the Trade Related Aspects of Intellectual Property Rights (**TRIPS**) agreement, the Patent Cooperation Treaty, the Budapest Treaty and the Patent Law Treaty.

Schedule 1, Part 2 – Innovation patents

The Committee has previously expressed the view that it does not favour the wholesale abolition of the innovation patent system.¹

It is clear, however, that there are some failings with the current innovation patent system which have resulted in the system being less effective than it might otherwise have been. The Committee considers that, with a modest number of changes to the system, the way in which innovation patents are granted and enforced could be made much more effective and could bring the system back into line as a legitimate and useful second-tier patent system.

In particular, many of the problems identified in the Productivity Commission's report of low value innovation patents could be addressed by:

- a) compelling **substantive examination** or introducing a requirement that innovation patents lapse after three years unless certified; and
- b) raising the **threshold for innovativeness**.

On this latter point, the Committee does not favour an innovativeness standard that is the same as that for standard patents. As the Productivity Commission's report notes, a return to such a standard would be tantamount to the reintroduction of the petty patent system that the innovation patent system was designed to replace – a policy 'Groundhog Day'.

Instead, the Committee submits that the innovative step tests suggested in the submissions referred to in the Productivity Commission's report would be workable. The Committee notes that this could be considered as striking an appropriate balance between the patentee's contribution to the art and the more limited period of innovation patent monopoly granted in consideration of that contribution.

The difficulties associated with undesirable strategic use of innovation patents can be addressed by:

- a) **limiting innovation patent divisional applications**; and
- b) **modifying remedies** available for infringement.

The Committee is aware that many innovation patents are granted as divisional applications from a pending standard patent application. At present there is no limitation on the number of innovation patent divisional applications which can be made, based upon the pending standard parent application (although there is a time limit within which divisional applications must be made). The ability to file numerous applications for innovation patent divisionals is potentially open to abuse, enabling innovation patent owners to divide out innovation patents

¹ See, for instance, the Committee's submission on ACIP's Options Paper on the Review of the Innovation Patent System dated 4 October 2013.

from pending standard patent applications so as to target alleged infringing activities. The Committee favours limiting the circumstances in which divisional innovation patents may be filed.

This could be achieved, for example, either by limiting the number of such divisionals that are permissible or only allowing divisional applications up until the date of grant of a first divisional innovation patent.

In relation to remedies available for infringement of innovation patents, the owner of an innovation patent is able to claim damages for infringement dating back to the effective filing date of the innovation patent. If the patent results from a divisional application (as many do) this extends to the initial period both before and after publication during which the parent application was pending and prior to the filing of the innovation patent application. The Committee endorses the suggestion made in the Productivity Commission's report to limit the availability of damages or an account of profits to infringements of an innovation patent occurring after the official publication of the claims that have been infringed.

Schedules 2 & 3 – Crown use

The Committee supports the proposed amendments to the section 3 definitions, the 'primary purpose' amendments introduced by new subsection 160A(4) and the provisions of new sections 163 and 163A.

The Committee notes that a likely practical problem with the proposed 'general rule' provisions in new subsection 163(2) is that in some circumstances it may not be apparent what (if any) patent rights may potentially apply to a proposed exploitation of an invention by a relevant authority, and consequently which party is to be approached for authorisation.

Remuneration - section 165

The Committee supports the proposed standard of remuneration as “just and reasonable having regard to the economic value of the exploitation”. This enables broader public interest concerns to be taken into account as well as those of the patentee and is consistent with the standard embodied in Article 31(h) of the TRIPS Agreement that “*the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization.*”

However, in the case of Commonwealth ministers and authorities, the addition of the term “reasonable” may be inconsistent with requirement under section 51(xxxi) of the Commonwealth Constitution that any acquisition of property by the Commonwealth should be on “just terms” alone. This limitation does not necessarily apply at the State level.

The Committee supports the provision of a broad discretion to a prescribed court to take into account in determining remuneration “*any other matter the court considers relevant*”.

The Committee makes no submission in relation to the proposed transitional provisions.

Schedule 4 – Compulsory licences

No demonstrated need for introduction of a public interest test

The patent system is designed to encourage innovation by granting exclusivity over inventions for a limited period of time, in exchange for the public disclosure of those inventions via the filing of a patent specification. It is, in effect, a system designed to promote long-term public benefits (increased innovation and sharing of knowledge) in exchange for a relatively short-term cost to the public (the conferral of exclusive rights on the patentee). Those exclusive rights are proprietary in nature and carry with them (as is the case for other proprietary rights) the right to exclude others. Specifically, section 13 of the Act confers on a patentee the exclusive right to exploit a patented invention and to authorise others to do so.

Of course, the exclusive rights of the patentee are not absolute. The TRIPS Agreement provides that Members may permit the use of patented inventions by third parties subject to certain conditions. More prescriptively, Article 17.9.7 of the Australia-United States Free Trade Agreement (**AUSFTA**) provides that a patent may only be exploited without the authorisation of the patentee in one of two circumstances:

- following a finding of anti-competitive conduct; or
- "*in cases of public non-commercial use, or of national emergency, or other circumstances of extreme urgency*", by the Government or a third party authorised by the Government.

The first ground aligns with paragraph 133(2)(b) of the Act, and the second ground broadly aligns with the provisions for Crown use. Although there is some debate as to whether paragraph 133(2)(a) in its current form complies with these two permitted exceptions (with the Australian Government's position being that the "reasonable requirements of the public" test comes broadly within the first AUSFTA exception), the Committee notes that a broader "public interest" ground of the kind proposed would appear to go well beyond that which is permissible under the AUSFTA. For the reasons set out in the Committee's response to IP Australia's consultation paper in November 2017, the Committee does not support replacing the "reasonable requirements of the public" test for the grant of a compulsory licence with a "public interest" test.

Item 6 - Grant of compulsory licence

The Committee notes that the Productivity Commission recommended that the new public interest test be enlivened where there is a substantial public interest in granting a compulsory licence. In a borderline case, the rights of patentees should be protected in order to minimise the extent to which the compulsory licensing regime adversely affects the incentive to innovate which lies at the heart of the patent system. As such, the Committee recommends that, in paragraph 133(3)(e), the words "it is in the public interest to provide" be replaced with the words "there is a substantial public interest in providing". The Committee considers that this would better balance the interests of all stakeholders. In particular, in circumstances where the arguments for and against a compulsory licence are finely balanced, the test should favour the patentee in order to discourage unwarranted, opportunistic or vexatious applications and encourage the parties to negotiate voluntary licence agreements.

The Committee remains concerned that it will be extremely difficult for the Court to balance the competing interests listed in proposed paragraph 133(3)(e). The Committee certainly agrees that it is critical that the interests of the patentee be taken into account, as subparagraph (e)(ii) proposes. However, there will be significant uncertainty for parties as to how the competing interests will be balanced in a particular case. This highlights the difficulties of a "public interest" test: even leaving to one side the rights of the patentee, there is a distinction between the interests of the public in the short term (which might include a desire for immediate and widespread access to patented technology at a low price) and the

interests of the public in the long run (which would take into account the public interest in encouraging innovation by appropriately rewarding innovative activity). This potential for uncertainty is a further reason why the Committee considers that the inclusion of "substantial" as a qualifier to "public interest" is important.

Item 7 – Remuneration

The Committee has several concerns about proposed paragraph 133(5)(b), which regulates the manner in which the remuneration for the compulsory licence will be set in default of agreement.

First, the Committee considers that the prefatory words ("if paragraph (a) does not apply") should be replaced by "if the patentee and the applicant are unable to agree on an amount within 60 days of the order being made (or such other period as may be specified by the Federal Court)". This would allow the Court to make an order granting a compulsory licence but giving the parties a clear window of time in which to negotiate the remuneration for that licence, in full the knowledge that the Court has decided to grant such a licence and in the light of any other terms and conditions which the Court may have imposed (or have indicated might be imposed in the absence of agreement).

Second, the Committee considers that the words "in the case of an order granted under paragraph 133(2)(b) –" should be added at the start of subparagraph (ii). The Committee does not consider that the objective of discouraging contraventions of Australia's competition laws is, or should be, a relevant factor in relation to the setting of remuneration in respect of an order made under proposed paragraph 133(2)(a).

Third, the Committee is concerned that subparagraph (iv) does not provide sufficient guidance to the Court as to the nature of the "public interest" which is to be taken into account in setting remuneration. The Committee considers that there should be alignment with the conditions for the grant of a compulsory licence set out in proposed subsection 133(3). Specifically, the Committee considers that subparagraph (iv) should refer back to the precondition in proposed paragraph 133(3)(a). As such, the Committee recommends that the existing subparagraph (iv) should be replaced with the words "the objective of ensuring that demand in Australia for the original invention can be met on reasonable terms".

The Committee also recommends that a fifth factor be introduced as subparagraph (v): "the objective of ensuring that innovation is encouraged and appropriately rewarded". While subparagraph (iii) refers to enabling the patentee to obtain an appropriate return on investment, it is not clear that this would adequately recognise the need to encourage inventive activity, which is the objective that lies at the heart of the patent system. Specifically, it will be important to give due recognition to the fact that the costs of innovation include not only the costs associated with the pathway that led to the patented invention, but also the costs of related research activities which were unsuccessful.

Item 11 - Revocation of patent

The Committee considers that the revocation of a patent is an extreme remedy. While the Committee acknowledges that there is already such a power under section 134, its exercise is limited to circumstances where the patentee is failing to exploit the patent and has not provided a satisfactory reason for doing so (leaving to one side the situation where there has been anticompetitive conduct, as that scenario is unaffected by the proposed amendments). In other words, at present the patentee can explain the situation (and must be failing to exploit the patent at all - see above). For example, it may be that the patentee is a research

organisation which does not have the wherewithal to finance commercialisation activities and might not have been able to agree to terms with a commercialisation partner - or the patentee may be an individual or company without the financial resources to exploit the invention on a sufficient scale to meet demand. The Court is not given any guidance as to how the "public interest" is to be assessed in this context - and, in any event, it is not clear that such a punitive measure is warranted.

The Committee's preferred position is that subparagraph 134(2)(a)(i) be repealed and not replaced, given the wider scope of the "public interest" ground for a compulsory licensing. Alternatively, the Committee proposes that the words "and the patentee has given no satisfactory reason for the failure to meet demand for the original invention on reasonable terms" be added at the end of proposed subparagraph 134(2)(a)(i).

Should you require further information, in the first instance please contact Matthew Swinn, Deputy Chair of the Committee (matthew.swinn@au.kwm.com or 03 9643 4389).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R Maslen-Stannage', written in a cursive style.

Rebecca Maslen-Stannage
Chair, Business Law Section