

Compulsory licensing and how it will not work where there are problem patents



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Overview

- The theory
- The *Patents Act 1990* (Cth)
 - Crown use
 - Compulsory license
- The *Trade Practices Act 1974* (Cth)
 - Remedy to anti-competitive practices
- Conclusions

The theory

- Concerns that foreign patent owners might limit domestic prosperity by:
 - Hindering domestic manufacture and industry development
 - Extract monopoly profits
- Compulsory licensing does potentially provide a useful tool where the patent holder might seek to inefficiently:
 - Take advantage of the statutory privilege to impose high prices
 - Restricted access contrary to a broader “public interest”
- The threat of a compulsory license has the effect of:
 - Promoting more licensing
 - Working inventions sooner

The theory ...

- There have been regular assertions that compulsory licensing:
 - Encourages the licensing and working of inventions sooner
 - An effective incentive for patent holders to grant licenses voluntarily and on their own terms
 - A panacea for “problem” patents
- Commonwealth Parliament
 - Explanatory Memorandum, *Intellectual Property Laws Amendment Bill 2006* (Cth) p 12
 - Senate Economics Legislation Committee, *Provisions of the Intellectual Property Laws Amendment Bill 2006* (2006) p 34
- Intellectual Property and Competition Review Committee (IPCRC), *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000) p 162
- Australian Law Reform Commission (ALRC), *Genes and Ingenuity: Gene Patenting and Human Health*, ALRC 99 (2004) p 613

The theory ...

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

Blanco White T, *Patents for Inventions and the Protection of Industrial Designs* (4th ed, Stevens & Sons, 1974) p 369

Patents Act 1990 (Cth) s 133

- (1) ... a person may apply to the Federal Court ... for an order requiring the patentee to grant the applicant a license to work the patented invention ...
- (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
 - (b) the patentee has contravened, or is contravening, Pt IV of the *Trade Practices Act 1974* [(Cth)] ... in connection with the patent

Other *Patents Act 1990* (Cth) limitations

The court may grant a compulsory license on any terms except that:

- The license must not be exclusive
- It may “be assignable only in connection with an enterprise or goodwill in connection with which the license is used”
- The order must not be “inconsistent with a treaty between the Commonwealth and a foreign country”
- The patent holder must be appropriately compensated

Patents Act 1990 (Cth) s 133

- A “license to *work* the patented invention”
- The court discretion
- Three thresholds conditions
- The order must not be “inconsistent” with Australia’s treaty obligations

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To *work* the patented invention

- Exclusive rights (*Patents Act 1990* (Cth) s 13)
 - “a patent gives the patentee the exclusive rights, during the term of the patent, to exploit the invention and to authorise another person to exploit the invention”
- “Exploit” includes (*Patents Act 1990* (Cth) sch 1):
 - (a) where the invention is a product – 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; 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

To *work* the patented invention ...

- A “license to *work* the patented invention”
- “work” 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
- “exploiting an invention” minus “working an invention” equals:

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

Method or process – use the method or process or do any of hire, sell or otherwise dispose of the product, offer to sell, hire or otherwise dispose of it, use it, or keep it for the purpose of doing any of those things with the product

Patents Act 1990 (Cth) s 133

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A court discretion

Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 (Menzie J)

- The exercise of this discretion was necessary following an affirmative finding that one of the listed deeming circumstances had been satisfied
- As a matter of construction, 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

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“the reasonable requirements of the public”

Patents Act 1990 (Cth) s 135

- (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 licenses 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 worked 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 reasonable requirements of the public”

- An “existing” or the “establishment of a new” “trade or industry”
 - *Robin Electric Lamp Co’s Application* (1915) 32 RPC 202
 - *Brownie Wireless Co’s Application* (1929) 46 RPC 457
 - *Kamborian’s Patent* [1961] RPC 403
 - *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572
- “Unfairly prejudiced ... trade or industry”
 - *Robin Electric Lamp Co’s Application* (1915) 32 RPC 202
 - *Brownie Wireless Co’s Application* (1929) 46 RPC 457
 - *Kamborian’s Patent* [1961] RPC 403
- “Reasonable terms”
 - *Robin Electric Lamp Co’s Application* (1915) 32 RPC 202
 - *Brownie Wireless Co’s Application* (1929) 46 RPC 457
 - *Loewe Radio Company’s Application* (1929) 46 RPC 479
 - *Cathro’s Application* (1934) 51 RPC 75
 - *Kamborian’s Patent* [1961] RPC 403
 - *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572
- “Adequate extent”
 - *Hatschek’s Patents* (1909) 26 RPC 228
 - *Robin Electric Lamp Co’s Application* (1915) 32 RPC 202
 - *Cathro’s Application* (1934) 51 RPC 75
 - *Kamborian’s Patent* [1961] RPC 403
 - *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572

Patents Act 1990 (Cth) s 136

“An order [for a compulsory license] must not be made ... that is inconsistent with a treaty between the Commonwealth and a foreign country”

“inconsistent with a treaty between the Commonwealth and a foreign country”

- *Trade-Related Aspects of Intellectual Property Rights*
 - Article 2.1 – Preserves the *Paris Convention for the Protection of Industrial Property* (Paris Convention 1967)
 - Article 31 – Allows “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
 - *Brazil – Measures Affecting Patent Protection*
 - *Argentina – Certain Measures on the Protection of Patents*
- *Australia-United States Free Trade Agreement*
 - Use of the subject matter of a patent without the authorisation

“inconsistent with a treaty between the Commonwealth and a foreign country”

Australia-United States Free Trade Agreement,
Art 17.9.7

“A Party shall not permit the use 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; or
- (b) in cases of public non-commercial use, or of national emergency, or other circumstances of extreme urgency, provided that ... [Crown use]”

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Contravening the *Trade Practices Act 1974 (Cth) Pt IV*

Commonwealth of Australia, *Senate Hansard*, 14 September 2006, pp 66-67 (Grant Chapman, SA).

“... 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* ...”

NT Power Generation Pty Ltd v Power and Water Authority (2004) 219 CLR 90

Contravening the *Trade Practices Act 1974 (Cth) Pt IV*

- ss 44ZZRA-44ZZRV – cartel conduct
- ss 45 and 45A – contracts, arrangements or understandings restricting dealings or affecting competition and price
- s 45B and C – covenants affecting competition and price
- s 45D – secondary boycotts
- s 46 – misuse of market power
- s 47 – exclusive dealing
- s 48 – resale price maintenance
- ss 50 and 50A – mergers

Conclusions

- That the meanings of the *Patents Act 1990* (Cth) text impose significant:
 - Uncertainties
 - Qualifications and discretions
 - Thresholds for evidence (proof)
- That prospective applicants are likely to be cautious about incurring the expense in making an application
- That the discretions and uncertain meanings of the text challenge the Australian Government's contention that compulsory licensing:
 - Promotes more licensing
 - Working inventions sooner

Conclusions ...

... to satisfy policy objectives the meaning of the compulsory licensing provisions in the *Patents Act 1990* (Cth) should be clear, so that:

- Applied at the time of the application to really “incentivised” patent holders to license and work their inventions earlier
- Potential compulsory license applicants can structure their affairs so as to avoid the unnecessary expenses pursuing uncertain license grants