



Public Consultation: Crown Use of Patents and Designs

August 2017



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Introduction

This paper discusses proposed amendments to the *Patents Act 1990* (the Patents Act) to

- clarify the purposes for which Crown use of patents may be invoked; and
- introduce transparency and accountability measures for Crown use.

The purpose of this paper is to encourage discussion and seek views on the proposed amendments.

IP Australia invites interested parties to make written submissions in response to the questions presented in this paper by **Friday, 17 November 2017**.

IP Australia will consider the submissions, and undertake further consultation during the legislation drafting process.

Written submissions should be sent to consultation@ipaaustralia.gov.au.

For accessibility reasons, please submit responses by email in Word, RTF, or PDF format.

The contact officer is Lisa Bailey, who may be contacted on (02) 6222 3695, or via email on Lisa.Bailey@ipaaustralia.gov.au.

This paper is also available at:

www.ipaustralia.gov.au/about-us/public-consultation

Submissions should be received no later than 17 November 2017.

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Crown Use of Patents and Designs

Background

Crown use is a mechanism in the *Patents Act 1990* (Patents Act) and the *Designs Act 2003* (Designs Act) that allows Australian Federal, State and Territory governments to access and use patented technology and registered designs without the authorisation of the patentee or registered owner. The Crown use provisions in s.163-170 of the Patents Act and s.93-105 of the Designs Act¹ set out the circumstances in which governments, and third parties authorised by governments, can use a patented invention or registered design for the services of the Commonwealth or the State.² The existence of Crown use provisions provides a safeguard to ensure the patent and design systems do not impede governments from acting in the public interest.

Crown use has rarely been used in Australia, with only two cases – both concerning patents – contested before the courts. Otherwise, data is difficult to obtain as uncontested use is not normally reported. While the provisions appear to be rarely used, previous reviews have suggested that their availability may facilitate agreement in voluntary licencing negotiations.³

A number of reviews have recognised problems with, and proposed amendments to, the existing Crown use provisions including:

- Australian Law Reform Commission (ALRC), 2004, *Genes and Ingenuity: Gene Patenting and Human Health*
- Advisory Council on Intellectual Property (ACIP), 2005, *Review of Crown Use Provisions for Patents and Designs*
- Senate Community Affairs References Committee, 2010, *Inquiry into Gene Patents*
- Productivity Commission Inquiry Report, 2013, *Compulsory Licensing of Patents*

The Productivity Commission (PC), building on the earlier reviews, proposed two key reforms:

- To reduce uncertainty about the scope of Crown use, the Patents Act should be amended to make it clear that Crown use can be invoked for the provision of a service that the Australian, State and/or Territory Governments have primary responsibility for providing or funding.
- To improve transparency and accountability, governments should be required to first seek a negotiated outcome, and publicly state the reasons for invoking Crown use in advance, except in emergencies. Governments should in all cases be required to obtain Ministerial approval to invoke Crown use, and be subject to the same pricing principles as for compulsory licensing.

The Crown use provisions in the Designs Act are currently aligned with those in the Patents Act. While the terms of reference for the PC inquiry were limited to patents, the earlier ACIP review considered both patents and designs.

A separate 1995 ALRC review of the designs system recommended repealing Crown use provisions for designs, but this was not accepted, as various Commonwealth and State agencies considered that it was

¹ These provisions also apply to designs which have been filed in anticipation of registration.

² The term “State” includes the Australian Capital Territory, the Northern Territory, and Norfolk Island, for the purposes of exploitation of the patent by the Crown: *Patents Act 1990* (Cth), Schedule 1.

³ Productivity Commission, 2013, Inquiry Report 61, *Compulsory Licensing of Patents*, p. 167.

important to maintain discretion to use a design, subject to payment of compensation, for reasons including defence and security needs.⁴ It is also entirely possible that a government may seek Crown use of a product which is subject to both a registered design and a patent.

In response to the 2013 PC Report, the Labor government at the time put forward amendments to the Patents Act, as part of the *IP Laws Amendment Bill 2013* (the 2013 Bill). During debate of the 2013 Bill and the subsequent inquiry by the House of Representatives Standing Committee on Social Policy and Legal Affairs, stakeholders raised a number of concerns with the proposed amendments to Crown use, including:

- that the requirement for ministerial oversight could hinder Crown use, making it even more unlikely that the provisions would be used;
- that the proposed method of remuneration for Crown use was inadequate and did not fully account for the costs to the IP owner;
- that the scope of the amendments may be incompatible with *Australia-United States Free Trade Agreement* (AUSFTA) requirements; and
- that the amendments lacked detailed consideration and consultation.

While the 2013 Bill passed the House of Representatives, it lapsed following the dissolution of Parliament prior to the 2013 federal election.

Following the 2013 election, the Government introduced the *IP Laws Amendment Bill 2014* (the 2014 Bill). Amendments to the Crown use provisions were not included, as there was insufficient time for further consultation. During debate of the 2014 Bill in the House of Representatives, Adam Bandt MP (Greens) introduced his own amendments to the Bill, effectively introducing amended Crown use provisions. The Bandt amendments share some features with the Crown use amendments in the 2013 Bill, discussed below. The 2014 Bill was passed by the House and Senate without the Bandt amendments, and so no changes were made to the Crown use provisions.

Further consideration of the PC recommendations on Crown use and compulsory licensing provisions was put on hold pending the decision of the High Court in *D'Arcy v Myriad Genetics Inc.*,⁵ and the release of the 2016 Productivity Commission Inquiry into Australia's Intellectual Property Arrangements (2016 PC Inquiry). The ruling in the *D'Arcy v Myriad* case made it clear that isolated gene sequences are not patentable which brought to an end a period of legal uncertainty. Prior to the High Court's decision, the Australian Government had been considering how patent safeguards – including Crown use – could be used to mitigate any negative effects of isolated gene sequence patents. The 2016 PC Inquiry did not make any additional recommendations on Crown use.

Problem

A number of reviews have recognised problems with the existing Crown use provisions.

Issue 1: Entities empowered to invoke Crown use

According to the ACIP and PC reviews, a number of entities could potentially qualify as “the Crown” including employees, commissions, statutory authorities, statutory corporations, and private corporations under contract to the government. This potentially ambiguous definition of “the Crown” could result in organisations being mistaken about whether or not they qualify as the Crown. The ALRC also raised concerns about the ambiguity surrounding some research institutes.⁶ As a consequence, a body may gain

⁴ Australian Law Reform Commission, Report No 74 – *Designs*, 1995, [7.23]-[7.28].

⁵ *D'Arcy v Myriad Genetics Inc.* [2015] HCA 35

⁶ Australian Law Reform Commission, 2004, *Genes and Ingenuity: Gene Patenting and Human Health*, at [26.33]-[26.35].

an unfair competitive advantage in the marketplace by invoking the Crown use provisions to which it is not entitled. Additionally, government entities may have elected not to invoke Crown use in the past because of the uncertainty that “the Crown” may be construed narrowly by the courts, even though the public may have expected the government to intervene.

Issue 2: The purposes for which Crown use may be invoked

Section 163 of the Patents Act and s.96 of the Designs Act provide exceptions to infringement of a patent or design where the invention concerned is exploited by the Commonwealth or a State (or by a person authorised in writing by the Commonwealth or a State), for the services of the Commonwealth or the State. However, some have argued that it is unclear what circumstances would be considered “for the services of the Commonwealth or the State”. The PC reported some uncertainty among stakeholders as to whether “for the services” of the government would extend to non-government service providers in areas that are traditionally the responsibility of government. This uncertainty exists notwithstanding the ability of the Commonwealth or a State to authorise third parties and may be an impediment to the effective use of the Crown use provisions.⁷

Issue 3: Accountability in the application of Crown use provisions

Both ACIP and the PC identified a need to strengthen the transparency and accountability of the Crown use provisions. The 2005 ACIP review considered that the broad nature of the power, the absence of a defined process for its application, and the potentially wide interpretation of “the Crown” highlighted the risk that the Crown use provisions may be abused, or perceived to be abused, which can have adverse consequences for patent owners. ACIP also noted that the lack of accountability weakened the bargaining power of the IP owner and may result in unfair terms being imposed on the IP owner.⁸

The PC agreed with ACIP, and noted that compared to compulsory licensing of patents – which is subject to judicial oversight – there are less formal checks and balances on Crown use which operate to ensure that it is invoked only in exceptional circumstances, and under fair terms.⁹

Issue 4: Transparency in the process of invoking Crown use

Section 164 of the Patents Act and s.97 of the Designs Act provide that an IP owner must be notified as soon as is practicable *after* exploitation of the patent or design by the Crown has occurred. There is no requirement for the Crown to obtain consent or inform the IP owner of any intention to use a patented invention or registered design prior to Crown use occurring. This creates a lack of transparency and certainty for IP owners.

In its 2005 review of the Crown use provisions, ACIP noted that stakeholders had given anecdotal evidence that the provisions had been used as a lever during negotiations. This was of particular concern to ACIP considering the disproportionate bargaining power between the Crown and the IP owner, which may result in unfair terms for the IP owner.¹⁰

ACIP also found that the lack of prior consent or requirement to provide reasons for exploiting the patent could undermine confidence in the IP system and business certainty of rights holders. ACIP supported the views of stakeholders that an IP owner needs information concerning the exploitation as soon as possible

⁷ For example, the Department of Health did not utilise the Crown use provisions to provide better and/or cheaper access to the breast cancer gene test patented by Myriad Genetics, despite pressure from some stakeholders: House of Representatives Standing Committee on Social Policy and Legal Affairs: IP Laws Amendment Bill 2013, Official Hansard of 6 June 2013, per Dr Luigi Palombi, p.13. See also Productivity Commission, 2013, Inquiry Report 61, Compulsory Licensing of Patents, p. 170-174.

⁸ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.8.

⁹ Productivity Commission, *Compulsory Licensing of Patents*, 2013, p.175.

¹⁰ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.33.

to minimise any commercial losses, and to ensure other business decisions can be made with certainty. Further, the Crown should seek to be open and transparent in its dealings with rights holders. Only in exceptional circumstances should the Crown seek to use a patent or design and address issues of consent and remuneration later.¹¹

The PC supported this view, noting that the increased transparency and certainty would better protect the IP owner's rights.¹² The PC also noted that the lack of any prior consent was inconsistent with the compulsory licensing provisions of the Patents Act, which require that an applicant seeking a compulsory licence must have tried for a reasonable period, without success, to obtain authorisation to work the invention on reasonable terms and conditions.¹³

Issue 5: Remuneration

Section 165 of the Patents Act and s.98 of the Designs Act provide that the terms for the exploitation of the invention or design (including remuneration) are such terms as are agreed, or determined by a method agreed, between the relevant authority and the IP owner or, in the absence of agreement, as are determined by a court. No guidance is given on how remuneration is to be determined. ACIP considered that this placed IP owners at a disadvantage in negotiating terms of use with the Crown, due to the much stronger bargaining position which the Crown holds. This was particularly the case for small and medium enterprises, which did not have the negotiating power or skills of large businesses.¹⁴ These provisions contrast with the standard for remuneration in place for compulsory licenses – which is currently “just and reasonable having regard to the economic value of the invention”.

Issue 6: International obligations

Article 17.9.7 of AUSFTA limits the use of a patented invention without authorisation (other than use allowed under Articles 17.9.3 and 22.2 of AUSFTA and Article 30 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)) to specific situations, including measures taken for the protection of essential security interests, and remedying anti-competitive behaviour, public non-commercial use, national emergency, or other circumstances of extreme urgency. There are no analogous restrictions regarding designs.

During consultation on the 2013 Bill, stakeholders raised concerns that the proposed amendment could be inconsistent with AUSFTA. For example, the Law Council of Australia (LCA) submitted that the proposed scope of the provision may extend to commercial activities, and would therefore be inconsistent with AUSFTA.¹⁵

¹¹ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.17.

¹² Productivity Commission, *Compulsory Licensing of Patents*, 2013, p.178.

¹³ *Patents Act 1990* (Cth), s.133(2)(a)(i).

¹⁴ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.28.

Options for reform

Option 1: Public education and awareness

Under this option, IP Australia would undertake public education and awareness activities. For example, the organisation could publish an explanatory document that outlines circumstances in which the Crown use provisions may be employed, and raise awareness of the provisions with relevant stakeholders. While this option may increase awareness of the existing Crown use provisions and could provide some clarity around when Crown use can be invoked, issues around transparency and accountability would remain. It is also unlikely to address concerns stakeholders have raised about the uncertainty around the scope of Crown use and corresponding legal risk in authorising non-government service providers.

Public education and awareness activities have been undertaken in the past. The government did not respond to the 2005 ACIP Review. Instead, the then Minister for Innovation, Industry, Science and Research wrote to relevant Commonwealth, State and Territory Ministers in March 2009 to raise awareness of government rights and obligations under the provisions. IP Australia also developed a public information sheet highlighting the Crown's rights and obligations, and the rights of intellectual property owners under the provisions. However, these actions do not appear to have alleviated concerns.

Option 1 is not preferred. Although this option would increase awareness of the existing provisions and may provide some clarification of how they are to be applied, it will also leave key issues of scope and transparency unaddressed.

Option 2: Amend the Crown use provisions of the Patents Act and Designs Act

Three approaches to amending the Crown use provisions of the Patents Act have been considered.

In each of the approaches under Option 2, it is envisaged that the Designs Act would also be amended to maintain consistency in Crown use between the two IP rights. This would result in consistency between patents and designs legislation and would preserve the ability to invoke Crown use over an object which is subject to both a patent and a registered design.

Option 2(a): Implement the Productivity Commission's Recommendations

Under this option the Patents Act would be amended to implement Recommendations 7.1 and 7.2 in the 2013 PC report *Compulsory Licensing of Patents*.

The amendments drafted for the 2013 Bill were proposed to implement these recommendations. These amendments comprised:

- Amending s.163 of the Patents Act to clarify that Crown use can be invoked for the provision of a service that the Commonwealth, State or Territory Governments have the primary responsibility for providing or funding.
- Amending s.164 of the Patents Act to introduce a process of ministerial oversight. This would require:
 - the Crown to attempt to negotiate use of the patented invention prior to invoking Crown use;
 - the Crown to provide the patentee with a statement of reasons no less than 14 days before such use occurs; and
 - Crown use to be approved by a Minister (the Federal Minister with responsibility of the Patents Act or State Attorneys-General).

The PC also proposed that the first two requirements would be able to be waived in the case of an emergency. However, the PC recommended that in all cases patentees should be provided with immediate notice that their patents have been used, and a statement of reasons as soon as practical

thereafter. Guidance on what constitutes “immediate notice” and “as soon as practical thereafter” would be provided in an Explanatory Memorandum to the amendments. The Minister would also be empowered to make multiple authorisations in the one instrument (for example, to cover all patents subsisting in a required product).

This option would have the effect that the infringement defence provided by s.163 would only apply where Ministerial approval had been obtained in advance of the exploitation.

- Amending s.165 of the Patents Act to state that remuneration to be paid to the patentee will be on the same basis as that for a compulsory licence.

The amendments proposed by the PC in 2013 sought to align the remuneration standard for Crown use with that in place for compulsory licences as they existed at the time (just and reasonable compensation, based on the economic value of the licence). However, the PC also recommended amending the remuneration standard for compulsory licensing. The PC’s overall recommendation then was for the remuneration standard for both Crown use and compulsory licensing to be “consistent with the public interest”, having regard to the rights of:¹⁶

- the IP owner to obtain a return on investment commensurate with the regulatory and commercial risks involved; and
- the public to the efficient exploitation of the invention or design.

The PC’s proposal that the remuneration standard for Crown use be consistent with that for compulsory licensing is not preferred. This is the case whether or not the standard for compulsory licensing is amended.

The current remuneration standard for compulsory licensing is unsuitable for Crown use. In circumstances where Crown use is appropriate to invoke, such as a health crisis, the economic value of the licence is only one of several factors to be taken into account when determining remuneration. The ACIP review considered that including the precise wording of TRIPS on the economic value of the licence would lead to ambiguity on the application of other important matters in determining remuneration for Crown use.

The PC’s recommended remuneration standard for compulsory licensing is also unsuitable for Crown use. Factoring in the IP owner’s rights to a return on investment – and the costs that may represent in emergency situations – may also unduly discourage the exercise of Crown use in circumstances where it is justified. Furthermore, the “efficient exploitation of an invention” is relevant only to the circumstances of compulsory licensing, so this remuneration standard is inappropriate for Crown use.

Option 2(b): Specify services of the Crown in a list

Under this option amendments to the Patents Act would be made as under Option 2(a), except that s. 163 would be amended to specify a list of purposes for which Crown use may be invoked. This list could specify public health measures, defence and other purposes to clarify the scope of Crown use as a limited safeguard to be used only in exceptional circumstances.

Several reports have recommended clarifying the scope of “for the services of the Commonwealth or of a State” to outline specific services to be included. For example, both the Australian Law Reform Commission and the Senate Inquiry into Gene Patents recommended clarifying that an invention is exploited “for the Services of the Commonwealth or of a State” if the exploitation is for the provision of healthcare services or products to members of the public.

This option is not preferred, as it would remove the broad applicability of the provisions, constraining the ability of the government to respond to a range of unforeseen circumstances in which Crown use may be justified. Specifying certain purposes would also undermine the technology-neutral nature of the Patents

¹⁶ Productivity Commission, 2013, Inquiry Report 61, Compulsory Licensing of Patents, pp. 24-25.

Act and the Designs Act. As noted by the PC, technology-neutrality is desirable because it reduces complexity and therefore overall costs of the patent system. For example, a “public health measure” purpose may be open to contested interpretation when considering Crown use of emerging technologies.

Option 2(c): As per option 2(a), but refine the remuneration standard (preferred option)

Under this option, amendments to the Patents Act and the Designs Act would be made as under Option 2(a), except that the PC’s suggestion for a remuneration standard to be on the same basis as compulsory licensing would be refined, and a different remuneration standard would be introduced as also recommended by ACIP.

Under this option, the remuneration standard, as recommended by the 2005 ACIP Review of Crown use, would provide that remuneration which is “just and reasonable taking into consideration the circumstances of the case” be given to the IP owner where their invention is used under Crown use.¹⁷ The ALRC report into gene patenting and human health had similarly recommended that remuneration be “just and reasonable”.¹⁸

This sets a more transparent standard of remuneration than currently exists, but which retains the government’s ability to act in the public interest more easily than it could with a compulsory licence. It is consistent with TRIPS and with the requirement in AUSFTA to provide “reasonable compensation”. It also retains flexibility to take into account all relevant factors, including the economic value of the licence, without placing undue emphasis on any single factor.

ACIP also recommended a specific remuneration process including a prescribed Alternative Dispute Resolution process. The PC thought it doubtful that the benefits of such a mechanism would outweigh the costs. We do not propose implementing that part of the ACIP recommendation on remuneration.

This option is preferred, and is discussed in greater detail under *Proposed Solution* below.

Option 2(d): As per option 2(a), but permit a waiver for Ministerial approval in certain circumstances

Under this option, amendments to the Patents Act and the Designs Act would be made as under Option 2(a), except that the requirement for ministerial approval could also be waived in emergency circumstances. This option would have the result that all three procedural requirements (prior negotiation, statement of reasons and ministerial approval) could be waived where emergency circumstances demand.

Some stakeholders have noted that the PC’s recommendation that prior ministerial approval be required in all circumstances of Crown use may obstruct immediate action by government. Their contention is that requiring organisations to properly brief the Minister in time may place an undue burden on government organisations.

The ACIP 2005 Review recommended that the legislation expressly state the circumstances where an organisation can temporarily waive the requirement for ministerial approval, to include emergencies, situations of urgency, national security situations and situations where a waiver (and not simply the Crown use) is in the public interest.¹⁹ ACIP also recommended that in order to obtain the protection of the Crown use provisions, as soon as practicable after temporary waiver, the organisation must obtain Ministerial approval, notify the IP rights holder that their IP has been used and commence negotiations following the prescribed statutory remuneration process. A government organisation using the waiver would arguably remain accountable to the Minister in seeking his or her approval as soon as practicably after to substantiate the need for the waiver.

¹⁷ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.33.

¹⁸ ALRC, *Genes and Ingenuity: Gene Patenting and Human Health*, Report 99, June 2004, p.33.

¹⁹ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.4.

However, the PC strongly advocated ministerial approval in order to clarify who may invoke Crown use provisions as a transparency measure. The PC also considered that the effect of ministerial approval would not be significantly different from the status quo.²⁰ It is also unclear what the consequences would be if a Minister declined to approve purported Crown use after it had occurred. Were this to occur, it is likely that the government organisation would lose the protection of the Crown use provisions. This option is therefore not preferred. However, IP Australia is interested in stakeholders' views.

Option 3: Implement the Bandt Amendments

Under this option the Patents Act would be amended to implement the Crown use amendments proposed by Adam Bandt MP (the Greens) in the debate on the 2014 Bill. These amendments comprised:

- Amending s.163 of the Patents Act to define “the services of the government” to include any service that is primarily provided or funded by the Commonwealth and/or one or more States or “research” that is primarily funded by the Commonwealth and/or one or more States;
- Amending s.163 of the Patents Act to introduce a process of ministerial oversight and a prior negotiation requirement, whereby exploitation of an invention is taken to be “for the services of” the Commonwealth or a state provided that:
 - the Crown attempts to negotiate with the patentee prior to invoking Crown use; and
 - instances of Crown use are approved by a Minister and that the patentee be provided with a statement of reasons for the Crown use, no less than 14 days before such use occurs.

The Bandt amendments to introduce prior negotiation, Ministerial approval and a statement of reasons were qualified as being without limiting subsection 163(1). The intention appeared to be that, where these additional steps were taken, the criterion of having exploited the patent “for the purposes of” the Commonwealth or a State would be automatically satisfied. If the Crown did not follow these optional processes, it would have to establish that the exploitation was for such purposes in the event of a dispute.

This approach differs from the PC recommendations in two key aspects:

- The definition of services of the Crown is extended in a similar manner to include services that are primarily provided or funded by the government, but would also include research. This appears to be an attempt to include research tools.
- The requirements for prior negotiation and Ministerial approval remain optional in all circumstances, not just in situations of emergency.

Research tools were specifically excluded from the research exemption in s.119C of the Patents Act. This policy decision was made after extensive research and consultation with stakeholders.²¹ Including research tools in the research exemption would have effectively devalued research tool patents.

The proposal to allow for Ministerial approval, without limiting sub-section 163(1), would provide governments with a mechanism enabling greater certainty on the applicability of Crown use while continuing to limit remedies against governments in cases of inadvertent patent infringement. However, it would not offer the same level of certainty, accountability and transparency to rights holders as the PC recommendation.

The discretionary nature of the process for Ministerial oversight and prior negotiation would address previously raised concerns that this additional oversight may hinder use of the provisions by government

²⁰ Productivity Commission, 2013, Inquiry Report 61, *Compulsory Licensing of Patents*, p.180.

²¹ These consultations were conducted as part of the *Intellectual Property Laws Amendment (Raising the Bar) Bill 2012* package of reforms.

due to the additional bureaucracy involved. The PC acknowledged that their proposed reforms would reduce some of the cost and time advantage of Crown use compared to compulsory licensing, but considered the effect would not be significantly different from the status quo.

The PC noted that the proposed reforms to introduce additional oversight were intended to work in tandem with Recommendation 7.1 (to clarify that Crown use can be invoked for the provision of a service that the Australian, State and/or Territory Governments have the primary responsibility for providing or funding). These recommendations are aimed at striking a balance between protecting patent rights, and giving governments and the public confidence that Crown use can be invoked if a patent is unduly preventing community's access to a technology. By making the accountability provisions optional, this balance is lost.

This option is therefore not preferred.

Benefits of Proposed Solution

Option 2(c) is the preferred solution. It addresses uncertainties around when Crown use can be invoked, and the lack of transparency and accountability within the provisions. The outcomes of applying Option 2(c) to the issues outlined on pages 3-5 are presented below.

Issue 1: Entities empowered to invoke Crown use

Clarifying that Crown use can be invoked for the provision of a service that a government has the primary responsibility for providing or funding, in combination with the introduction of Ministerial approval, makes clear that Crown use may be used by any government entity which receives ministerial approval for the purposes of providing that service. Clarifying that "the Crown" is any entity which has the appropriate Ministerial approval avoids the need to specify particular government entities entitled to invoke Crown use. This option also clarifies that government may invoke Crown use for services provided by non-government providers.

Issue 2: The purposes for which Crown use may be invoked

Clarifying that Crown use can be invoked for the provision of a service that the Australian, State, and/or Territory Governments have the primary responsibility for providing or funding, will provide greater certainty around when Crown use can be utilised, without limiting the flexibility of the provisions, and the future ability of governments to invoke them in the interests of the community.

The PC noted its intention that the primary responsibility test would take account of all providers of similar services. This would, for example, mean that genetic testing undertaken by private providers for private patients would be included in an assessment of whether governments have primary responsibility for providing or funding such testing. Given that governments are responsible for providing or funding the vast majority of genetic tests, they would be found to have primary responsibility. As a result, genetic testing would be eligible for Crown use, including when it is undertaken by private providers for private patients. The private providers could be authorised to exercise Crown use on behalf of a government following the same approval process required of government entities.

Issue 3: Accountability in the application of Crown use provisions

Implementing a process of ministerial oversight will ensure that Crown use is only invoked in appropriate circumstances. It will ensure that only the appropriate entities are able to represent the Crown. The increased transparency and clarity provided by the requirement for ministerial oversight will enhance the government's ability to meet the needs of the public in the rare cases where Crown use is invoked, while providing greater certainty to IP owners that the provisions will be used appropriately.

The Minister who will have responsibility for providing approval for Crown use on behalf of the Commonwealth will be the Minister responsible for administering the Patents Act and Designs Act. This is currently the Minister for Industry, Innovation and Science. At the State level, the responsible Minister will be the Attorney-General of the State or Territory.

The Ministerial oversight procedure will build upon requirements that already exist. For example, the government must already inform the IP owner that the invention has been exploited as soon as is practicable. Administrative review legislation provides that the government can be directed to provide reasons for Crown use,²² and the IP owner can already apply to the Federal Court for assistance in resolving a dispute over remuneration.²³ IP owners may apply to the Federal Court to order a government to cease Crown use on the basis that the exploitation of the invention or design is not necessary for the proper provision of services of the Commonwealth or the State, and where it is fair and reasonable to do so.²⁴ A decision to exercise Crown use may also be subjected to judicial review.

Issue 4: Transparency in the process of invoking Crown use

The structured process, including the requirement to negotiate and to provide a statement of reasons prior to exploitation, will provide greater transparency to rights holders. Having a structured process, including a prior negotiation requirement, reduces uncertainty and acknowledges the rights of the IP owner. These steps would be able to be waived in the case of an emergency, allowing the government to act quickly if required.²⁵

The PC, while acknowledging that these reforms would reduce some of the time and cost savings of Crown use, did not believe the effect would be significantly different to the status quo. Similarly, ACIP considered that this process is unlikely to hinder Crown use. A majority of stakeholders who made submissions to the 2005 ACIP Review supported the concept of introducing a structured process and Ministerial oversight.²⁶ Crown use is intended to be a rarely used safeguard that is invoked only in order to deal with an urgent or substantial issue that is of concern to the public. The additional certainty and transparency will ensure that Crown use is only invoked in appropriate circumstances, and prevent the provisions from being misused. These benefits offset the additional administrative burden placed on the Crown. Further, the Crown has a duty to ensure that, where it is appropriating an intellectual property right, it acts responsibly and transparently.

Issue 5: Remuneration

Introducing a remuneration standard that is “just and reasonable taking into consideration the circumstances of the case” will improve transparency and introduce a degree of certainty to remuneration negotiations. ACIP believed that these terms encapsulate a balance of both an objective test with the term “reasonable” and a subjective test with the term “just”. It will provide broad guidance for the court in determining the appropriate level of compensation, while retaining the flexibility to deal with a variety of situations.

During consultation on the 2013 Bill, the Queensland Law Society submitted that the proposed amendment to the remuneration provisions did not provide enough guidance. As an alternative, they suggested implementing a formula for calculating remuneration. However, introducing a formula would introduce complexity, and would reduce the flexibility of the provisions to deal with diverse circumstances. Accordingly, IP Australia submits that provisions which provide general guidance on how compensation is to be determined is preferred.

Issue 6: International obligations

²² *Administrative Decisions (Judicial Review) Act 1977* (Cth), s.13.

²³ *Patents Act 1990* (Cth), s.165(2), *Designs Act 2003* (Cth), s. 98.

²⁴ *Patents Act 1990* (Cth), s.165A, *Designs Act 2003* (Cth), s. 102.

²⁵ The Minister would necessarily be empowered to deem what constitutes an emergency in the circumstances. This is subject to the court’s power to declare that Crown use cease where, “in all the circumstances of the case, it is fair and reasonable” to make such a declaration: *Patents Act 1990*, s.165A.

²⁶ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.23.

Any implementation of Option 2(c) would be done consistently with Australia’s international obligations.

Government use is, by its nature, typically public non-commercial use. While public non-commercial use is not defined, the Australian Government has stated its interpretation that all use by the Crown is public non-commercial use.²⁷

Implementing the Option 2(c) would clarify that governments could authorise the exploitation of patents, by private providers for the benefit of private patients within the ambit of public non-commercial use. As noted above, some stakeholders considered this included services offered on a “for profit” basis.

The LCA expressed the view in 2013 that it would be preferable to incorporate a limitation to restrict Crown use to public non-commercial use directly into the legislation. This would be more restrictive than necessary, as it would exclude the above-mentioned additional categories for unauthorised use. There is also no similar express limitation in US law.²⁸

The proposed Crown use provisions provide a discretionary mechanism for unauthorised use of a patent for the services of a relevant government authority. The second reading speech and explanatory memorandum to the 2013 Bill emphasised that Crown use is to be invoked as a rarely used safeguard, to address exceptional circumstances. The 2005 ACIP Review considered that Ministers would benefit from guidelines to follow when considering a request for approval of Crown use. IP Australia proposes a ministerial guidance document – such as a practice note or ministerial guidelines – to support the application of the Crown use provisions in a manner consistent with international obligations.

Summary

In summary, the benefits of the proposed solution are that it:

- addresses the issues with Crown use provisions, including the lack of clarity regarding when Crown use can be invoked, who may invoke it, and the lack of transparency and accountability;
- improves clarity for both the Crown and the IP owner with regards to standards of remuneration, whilst retaining flexibility for the government;
- increases the effectiveness of the Crown use provisions in ensuring the IP system does not impede governments from acting in the public interest; and
- is consistent with Australia’s international obligations.

Questions for consultation

- CU1 Which approach to Crown use of patents and designs do you favour and why?
- CU2 What pros and cons have we not considered, including unintended or unforeseen consequences?
- CU3 What other options are there?
- CU4 Do you consider that ministerial approval should be required in all circumstances of Crown use as per options 2(a) and 2(c), or should a waiver be permissible in certain circumstances?

²⁷ Australian Government 1997, *Review of Legislation in the Fields of Patents, Layout-Designs (Topographies) of Integrated Circuits, Protection of Undisclosed Information and Control of Anti-competitive Practices in Contractual Licences*, Response to the Council for Trade-Related Aspects of Intellectual Property Rights, World Trade Organisation, Geneva.

²⁸ See 28 United States Code 1498.

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