

## **TELSTRA CORPORATION LIMITED**

# **Response to Productivity Commission Issues Paper “Compulsory Licensing of Patents”**

**September 2012**

## INTRODUCTION

Telstra Corporation Limited ('Telstra') welcomes the opportunity to respond to the Productivity Commission Issues Paper 'Compulsory Licensing of Patents'.

Telstra is Australia's leading telecommunications and information services company, providing fixed line, mobiles, broadband, information, transaction, search and pay TV services. Telstra has an established patent portfolio in Australia and overseas and is both a licensor and licensee of patented technology.

Telstra acknowledges the importance of the patent system to encourage innovation by providing inventors with a temporary exclusive right to the patented invention. Telstra also recognises the existing checks on this exclusive right in the form of a limited duration and the requirement that inventors disclose information about their invention to the public.

However, Telstra is concerned that in some cases, the patent system may reduce the diffusion and use of new ideas with overall detrimental economic and social impacts.

Telstra supports the notion that compulsory licences should be available to operate as a safeguard in circumstances where the exploitation (or lack thereof) of an invention covered by a patent does not meet the reasonable requirements of the public. We acknowledge that determining the availability of compulsory licences involves a delicate balance – if issued too liberally they may discourage innovation; if issued too restrictively they may reduce the benefits that the community as a whole may achieve from new inventions.

We do not believe that the current compulsory licensing provisions strike an appropriate balance. Rather, we consider that the current grounds for obtaining compulsory licences are too restrictive for the system to operate effectively and efficiently. In particular, we believe that the scope for obtaining a compulsory licence should be expanded, and that the procedure for determining fair, reasonable and non-discriminatory (FRAND) terms be clarified.

## ISSUES FOR COMMENT

Our response focuses on those aspects of the Paper that are of particular interest or concern to Telstra.

**Q. How might compulsory licensing be utilised to address the specific concerns related to .... standard essential patents?**

**Patents relating to communication networks and emergency services to be considered 'standard essential patents'**

Telstra recognises that compulsory licences are particularly important in certain industries, including gene patenting, climate change mitigation, alternative energy technologies and food securities. However, we

consider that there may also be other areas which are also of fundamental importance, justifying expansion of the scope of availability of compulsory licences.

In particular, we consider that the areas of communication networks and emergency services are of critical social importance. Access to reliable communications networks is now considered a fundamental necessity, and communication networks are an essential infrastructure component.

Currently, a subset of patents considered “standard essential” are sometimes required to be licensed on FRAND terms. This approach is adopted to encourage device and component compatibility, and to ensure that a single patent holder cannot cause incompatibilities.

More important than potential network and device incompatibility, are network availability and maintenance, which play a crucial and essential role, especially during times of emergency. Patents relating to the availability and maintenance of such networks and related technology should be classified as standard essential patents, regardless of whether they form part of a formalised standard. Similarly, patents covering software or infrastructure involved in the provision of emergency services should also come within the definition of standard essential patents.

Where owners of such standard essential patents refuse to licence on FRAND terms, compulsory licences may have a role to play.

**Recommendation:** Communication networks and emergency services are of critical social importance. Patents relating to these fields should be considered ‘standard essential patents’ and therefore potentially subject to compulsory licenses.

## Data Transition and Interoperability of Systems

Telstra believes that the public has a legitimate interest and reasonable expectation of being able to migrate their data from one system to another. Patents should not be permitted to lock customers into a single proprietary product, and any attempt to do so might be addressed via a compulsory licence.

For example: A customer uses Company A’s cloud service to run their business, but then wishes to migrate to Company B’s cloud service, which uses different technology. Transitioning between the two companies requires a degree of interaction with the service in order to liberate the customer’s information and put it into a form suitable for use with B’s service. Telstra suggests that it should be possible to obtain a licence of sufficient scope to allow Company B to interoperate with the origin service from Company A, and do anything necessary to transfer the service and verify the success of that transfer.

The desire for interoperability and avoidance of data lock-in was one of the rationales behind the introduction of s47D of the *Copyright Act 1968* (Cth). Although the potential copyright infringement in creating interoperable products has been at least partially addressed, the potential patent infringement remains of concern.

If the patent owner refuses to grant a licence on FRAND terms to enable data migration and interoperability, then this may be an area which justifies a compulsory licence.

**Recommendation:** The scope of the grounds for obtaining a compulsory licence should be expanded to allow customers to transition data across different systems, and allow interoperability between systems.

## Patent Thickets

As the complexity of many products increases, we find markets where those seeking to commercialise a new technology face numerous overlapping patents ('patent thickets'), resulting in licences being required from multiple patentees. Attempting to negotiate licences with all relevant patent owners can be onerous, time consuming and expensive, resulting in lengthy delays and higher costs. This situation can undermine competition by effectively allowing patent owners to exclude competitors from a market – either through demanding unreasonably high licence fees, or by denying a licence altogether. This in turn may have broader consequences, including higher prices and less choice for consumers.

Whilst patent pools sometimes address the patent thicket situation, patent pools do not always provide a solution. Participation in patent pools is voluntary and therefore dependent on industry co-operation. Where industry players in a patent thicket context do not co-operate via a patent pool model, there may be a case for declaring that there has been a market failure, which requires external action.

Compulsory licences may have a role to play in addressing these concerns, to increase overall economic efficiency.

For example, assume a particular device is covered by a 'thicket' of 100 patents. A company wishing to bring the product to market would currently need to negotiate licences for each of these 100 patents. Assume this company undertook searches to determine which patents were relevant (an often impossible task), and then attempted to negotiate in good faith to licence these relevant patents from the respective patent owners. Even if the company successfully managed to obtain 90 licences, the inability to procure the remaining 10 licences would mean that it could not proceed with the product without risking patent infringement proceedings.

In such situations, where entities are unable to reach agreement with the patentees regarding a licence on FRAND terms, then perhaps the court should consider granting a compulsory licence(s).

**Recommendation:** We propose that compulsory licences might be appropriate in a 'patent thicket' context. Perhaps such patent thickets could be encompassed within the competition ground for compulsory licensing.

**Q. Should better guidance be provided on the criteria used by the Federal Court to determine the terms of compulsory licences, including their price? What form should such guidance take and how specific should it be?**

The current statutory guidance on compulsory licence terms is very sparse, giving rise to considerable uncertainty regarding the criteria that will be considered by the court in deciding these terms.

Telstra considers that it may be helpful to provide better guidance for the court in determining compulsory licence fees. In particular, we consider that there should be a well-defined procedure for determining royalty costs. This might depend both on the revenue of the product and the number of patents that apply to the given product. In the context of patent thickets, consider whether there might be scope to determine revenue based on the proposed product, so that revenue is split between the various patent holders. If additional patents are subsequently discovered, there might then be flexibility to vary the

distribution arrangement so that the product developer is not required to pay any unexpected ongoing additional fees.

The benefit of such additional guidance is to provide certainty for both patentees and prospective licensees.

Recommendation: The Patent Act should include more detailed guidance regarding the criteria for courts to consider in determining the terms of compulsory licences. These should include consideration of the revenue of the product and the number of patents that apply.