



# CSIRO Submission 12/458

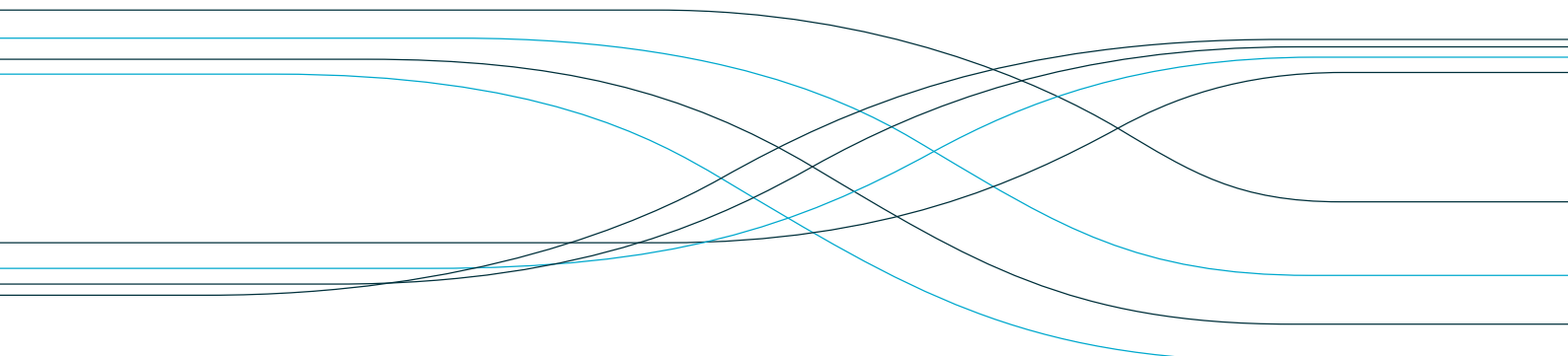
## Compulsory Licensing of Patents

### Productivity Commission

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This submission is made on behalf of the Commonwealth Scientific and Industrial Research Organisation (CSIRO) in response to the Productivity Commission enquiry into the compulsory licensing of patents.

CSIRO is Australia's national science agency and one of the largest and most diverse agencies in the world. CSIRO's research is largely performed by fourteen Divisions, which are the business units of CSIRO. The relationship between these fourteen research areas enables CSIRO to tackle industrial and environmental problems with a multidisciplinary approach. The Flagship Program is a CSIRO initiative that aims to align our research with major national issues. This program provides multidisciplinary teams that partner with business and the research community both locally and internationally using world-class science to deliver powerful solutions that tackle Australia's major challenges and opportunities. The flagships have a clear focus on the delivery and adoption of research outputs to maximise impact for Australia. CSIRO is engaged in a select number of long-term, strategic joint ventures and is also an active participant in Cooperative Research Centres (CRCs) and Centres of Excellence.

CSIRO develops and protects its intellectual property utilising the patent system where appropriate. It holds a large global portfolio of patents covering a vast array of technologies such as energy, information sciences, food, health and life science industries, environment, manufacturing, minerals and materials. CSIRO actively licenses its patents as an effective vehicle with which to enter into technology development arrangements. Licensing therefore offers an effective pathway to deliver impact from the technology.

The following comments are made with reference to CSIRO's experience as a licensor and licensee within the patent system.

### **Incentives to license and reasons not to license:**

Incentives to license patents depend, amongst other things, on the nature of the licensor. In the case of CSIRO as licensor, patent licensing is generally used as a vehicle to promote impact from the technology in pursuance of CSIRO's statutory functions which include facilitating the utilisation of scientific research. These incentives may in many cases differ from the incentives that drive private sector commercial organisations.

Accordingly, for CSIRO or organisations with similar objectives, incentives to license include developing a pathway to deliver impact from the technology. Where the invention relates to a platform technology – that is, a technology with potential multiple application fields or industry sectors – then the licensing incentive will be to develop a strategy to maximise the potential utilisation of the technology across applicable fields and sectors.

In CSIRO's context it may be that a patent licence might appropriately be refused if the proposed licence arrangement was considered to detract from CSIRO's ability to achieve impact from the technology. This could in principle occur in circumstances where exclusive rights are expected to be required to attract an appropriate licensee and where an applicant for a licence does not appear to have sufficient capacity for whatever reason to commercially develop a new technology. In such circumstances granting a licence to the applicant would preclude CSIRO from subsequently granting an exclusive licence to a more suitable licensee that does have the capacity to effectively utilise the technology.

### **Awareness of compulsory licensing provisions:**

CSIRO has always been aware of but has not actively utilised the compulsory licensing provisions of the *Patents Act 1990*. As identified below, potential patent impediments to developing a technology are best identified early and solutions other than compulsory licensing explored, for example, partnering with the patentee or developing non-infringing and preferably better alternatives.

## **Experimental Use Exemption**

The introduction of the Experimental Use Exemption (EUE) provided that for proposed experiments in relation to the subject matter of a patent, a patent licence is not necessary. This provision accords with the rationale of the patent system, which includes the concept of an applicant being required to describe the invention fully, including the best method known to the applicant of performing the invention. That is, part of the bargain between the applicant and the public is that the public is put in possession of the invention at a time near the outset of the patenting process. This means that others can immediately begin developing and improving upon the invention without waiting until the patent has expired, thereby promoting the public good. Of course, if it turns out that the subsequent inventor cannot practise the improvement without a licence from the original patentee, that is a separate matter not relevant here.

In the case of CSIRO as potential licensee, the EUE obviated the need to consider seeking licences, including compulsory licences, for scientific research. The EUE is therefore an important complement to any compulsory licence regime.

## **Current provisions:**

CSIRO acknowledges the uncertainty and expense of a section 133 application but it does not follow that CSIRO supports lowering the standards of assessment of an application for a compulsory licence. In CSIRO's view it is entirely appropriate that a court be given discretion to enable it to consider all the issues associated with a compulsory licence application on a case by case basis.

In particular, commercialisation of technology often requires patent protection to enable the grant of exclusive rights to justify investment. Reducing the standard required to enable a compulsory licence to be granted could seriously undermine the investment made by researchers and research funders for which they have a legitimate expectation of obtaining exclusive rights through the patent system.

Technology commercialisation is generally a challenging activity that requires significant upfront risk and investment. It often takes significant time and resources to develop technology into a product or service ready for commercial application. This time scale can mean that although significant efforts are being made to bring a product to market, nevertheless patent protection could be in place for some time before such efforts come to fruition.

A court is best placed to weigh and balance these matters with other relevant interests in determining a section 133 application.

If an administrative determination on compulsory licensing were to be introduced, such decisions would presumably be subject to review, either as an appeal on the merits or by way of judicial review, which, if invoked, could well increase the overall time and cost of a compulsory licence application. Moreover, the main costs incurred in either judicial or administrative environments are those incurred by the parties in preparing for the hearing; these are often the same for either type of venue.

In practice a commercial entity seeking to bring out a new product would generally be expected to conduct patent infringement searching at several stages throughout development and prior to product launch. Accordingly, it would be expected that patent impediments to proposed products would be identified early to enable solutions other than compulsory licensing to be explored. These potential solutions include: working with the patentee to develop the technology even further, developing work-arounds to avoid infringement, obtaining evidence and opinions to support a view that the patent is invalid, challenging the

validity of the patent, seeking a declaration that the patent is not infringed, negotiating a voluntary licence, abandoning the product.

### **Issues relating to standard essential patents:**

There is a strong public interest in promoting the use of industry standards, particularly where these are international, thereby promoting interoperability and competition between domestic and imported goods. However, there are competing interests at play when such standards are being developed. For example, the standards setting process could be captured by industry incumbents, including those which engage in mutually advantageous patent pooling. This potentially raises barriers to entry for non-incumbents. For example, if industry incumbents insist upon artificially low royalty rates for licences for all technologies to be included in a draft standard, this potentially and selectively would reduce incentives for non-incumbents and research bodies to invest in the development of new technologies; and would also create a tendency to exclude the best available (and correspondingly most valuable) technologies from the standard, risking the widespread implementation of technologies more likely to be second best.

A widely implemented response to some of these issues is a requirement that, in order for a technology to be included in a standard, the relevant patent owners must undertake to make licences available on FRAND (or RAND) terms. However, even with such a commitment there may be arguments because incumbents may still, out of self interest, take the position that a “reasonable” royalty in these circumstances means a royalty which is zero or very low.

Australia’s current compulsory licensing provision includes a requirement, in s.133 (5)(b), for the court to determine a payment amount which is “just and reasonable having regard to the economic value of the licence and - - - “. This determination would be similar to the kind of determination routinely made by the same court for damages for infringement – see s.122 (1).

CSIRO believes that there could be benefit in expanding the circumstances for compulsory licences to include one where an international and widely-adopted standard is involved, the relevant patent is essential to that standard and is already widely licensed non-exclusively on reasonable royalty terms to firms practising the standard in the relevant market, and the applicant merely wishes to be allowed to compete in the same market. The main role of the court would then become the determination of a payment amount or royalty which is “just and reasonable”. The requirements of at least s.133 (2)(a)(i) would still be relevant if such a proposal were to be adopted.