



THE INSTITUTE OF PATENT  
AND TRADE MARK  
ATTORNEYS OF AUSTRALIA



FICPI AUSTRALIA

6 February 2013

**By E-mail ONLY**  
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Compulsory Licensing of Patents  
Productivity Commission  
LB2 Collins Street East  
Melbourne Vic 8003

Dear Sirs,

**Re: The Draft Report on Compulsory Licensing of Patents - December 2012**

This submission is made by the Institute of Patent and Trade Mark Attorneys of Australian ("***IPTA***") and FICPI Australia ("***FICPI***") and is supplementary to the Submission to the Commission dated 28 September, 2012 ("***the first submission***").

IPTA and FICPI are broadly in support of the recommendations of the Commission set out in its draft report. However, there are some further comments which IPTA and FICPI would like to make in relation to the draft findings and draft recommendations.

In the first submission, IPTA and FICPI argued that "...the short term interests of the public should not detract from the overall long term goal of the (patent) system which is to encourage investment in research and development. In assessing the compulsory licensing provisions, IPTA and FICPI submit that the assessment must take place in the wider context of what the system delivers in the long term." (Paragraph 14). Whilst IPTA and FICPI would support the removal of the compulsory licensing provisions absolutely and full reliance to be placed on the Crown use provisions in cases of national emergencies and the like, there is a recognition that the "horse has bolted". Therefore, if the removal of the compulsory licensing provisions is not a realistic proposition, IPTA and FICPI agree with the Commission that the current industry focused ground for the grant of a compulsory licence should be replaced by a public interest ground. However, IPTA and FICPI differ from the view taken by the Commission as to how this ground should be formulated.

In draft recommendation 6.2, the Commission is broadly proposing a test which focuses on the Australian demand for a product or service not being met on reasonable terms due to an essential patented invention not being made available to meet the demand and there being a public interest in providing such access. Whilst draft recommendation 6.2 clearly bring into the equation the public interest and ensures consideration of the rights of a patentee, IPTA and FICPI respectfully suggest that the proposed ground would better serve the objective if it was couched in terms giving primacy to detriment being suffered by a substantial section of the Australian public.

Taking recommendation 6.2 as the basis, a possible reformulation of the conditions to be met for the purpose of a public interest ground could be as follows:

- "(a) A substantial section of the Australian public is suffering detriment due to a product or service or class of products or services necessary for the alleviation of that detriment not being available on reasonable terms and conditions because a patented invention which is essential to the production or delivery of a relevant product or service is not being exploited by the patentee or not being made available by the patentee on reasonable terms and conditions;
- (b) [As recommended by the Commission];
- (c) Access to the patented invention is the only economically feasible means by which the detriment will be alleviated and the applicant is capable of producing the relevant product or providing the relevant service within the timeframe, in such quantities and on such terms and conditions as are likely to alleviate the detriment;
- (d) [As recommended by the Commission];
- (e) [As recommended by the Commission]."

The benefits of a formulation in this form are that (1) the ground is clearly focused on public benefit; (2) it brings in to the equation the lack of suitable substitutes; and (3) it takes into account the ability of the applicant to alleviate the perceived detriment. In this latter respect, it is noteworthy that in the Fastening Supplies Case, the Court was concerned that the applicant did not have the necessary expertise to develop the patented invention ([1969] HCA 91 at para 21).

IPTA and FICPI find it curious that in the Commission's draft report, the discussion of the essential facilities doctrine of the United States appears in relation to the public interest topic. With respect, it would seem that such a discussion would be more relevant to the competition ground topic. As the Commission notes on page 145, the doctrine is one which is concerned with competition and as Pitofsky notes on page 6 of the paper referred to by the Commission:

"The doctrine only rarely results in anti-trust liability because courts require a showing that the facility controlled by the defendant firm is truly *essential* to competition – i.e., constitutes an input without which a firm cannot compete with the monopolist. "[A] Facility "controlled by a single firm will be considered "essential" only if control of the facility carries with it the power to *eliminate* competition..."."

Thus, the extent to which the essential facilities doctrine is a useful model for Australia, it is only useful in the context of the Competition and Consumer Act ("**the CCA**") ground. In the context of a discussion in relation to the competition ground for the grant of a compulsory licence, IPTA and FICPI agree that a compulsory licence on that ground should only rarely be granted and should only be granted where the failure to licence constitutes an abuse of substantial market power. Whilst the word "abuse" does not appear in section 46 of the CCA, that section would appear to be the appropriate section, the breach of which would lead to the grant of a compulsory licence.

This brings us to the second issue on which IPTA and FICPI wish to comment. This is draft finding 6.3 by the Commission which relates to section 51(3) of the CCA.

IPTA and FICPI support the recommendation that compulsory licences based on the competition ground should be dealt with in the CCA. However, neither IPTA nor FICPI support the removal of section 51(3) from that Act; whether in relation to patents only or intellectual property rights generally.

Whilst IPTA and FICPI agree that there are shortcomings in the drafting of Section 51(3), the experience of their members is that the section performs a valuable task in providing a safe harbour for patent licences and assignments. If these provisions were fully exposed to the CCA, transaction costs would increase and uncertainty would be introduced into an environment where generally there is a high degree of risk attached to the commercialisation process. The justification for section 51(3) is that it applies to give certainty of non-application of certain provisions of the CCA where, in the vast majority of situations, those provisions would not, in any event, apply. This is for the reason that a patented invention is unlikely to exhibit such market power that a condition relating to that invention would have the effect or likely effect of substantially lessening competition in a relevant market. Where, in an exceptional case, a patented invention was controlled by a person with substantial market power, then section 46 of the CCA would regulate the use of that patent where the patentee was refusing to licence the patent for the purpose of:

- "(a) eliminating or substantially damaging a competitor of the corporation or of a body corporate that is related to the corporation in that or any other market;
- (b) preventing the entry of a person into that or any other market; or
- (c) deterring or preventing a person from engaging in competitive conduct in that or any other market."

This prohibition is reminiscent of the description of the essential facilities doctrine as described by the Commission in the draft Report.

Whilst there has been criticism of Section 51(3) over the years which, on a technical level, IPTA and FICPI might well be in agreement with, the fact is that the section has been in the Act since 1974 and has barely been the subject of judicial review. Notwithstanding that, at a practical level, practitioners in the area are aware of the provision and comfortable with the general proposition that conditions which relate to, for relevant purposes, patents which are contained in licences or assignments are protected from scrutiny under the CCA. This is particularly important in the case of collaborative research and development agreements (such, for example, as those which would be enshrined in CRC documentation). Without Section 51(3), an agreement between members of a CRC to field of use restrictions in a patent licence arising out of collaborative research would need to be scrutinised under the CCA. This would add to transaction costs (for example, seeking legal advice or referring the matter to the ACCC for authorisation) in situations where the likelihood of transgression is remote given the nascent nature of the technology. A further danger would be that uncertainty would be increased possibly leading to a reluctance to participate in or provide funding for such collaborative arrangements. Furthermore, research arrangements in which a sponsor directed a research organisation to use a particular scientist who was not an employee of the organisation in a research program would fall foul of the third line forcing prohibition necessitating notification to the ACCC; again adding cost and uncertainty in an environment where there are already significant costs and risks.

6 February, 2013

Accordingly, IPTA and FICPI would strongly recommend that any shortcomings of section 51(3) be dealt with by amendment rather than by throwing "the baby out with the bath water".

IPTA and FICPI appreciate the opportunity to comment on the draft report and we are very happy to take part in any further discussions in relation to the review of the compulsory licensing provisions and our recommendations.

Yours faithfully



**Michael J Caine**  
Convenor - Legislation Committee  
Institute of Patent & Trademark Attorneys of Australia



**Greg Chambers**  
President  
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