AUSTRALIAN PATENT UPDATE: THREE KEY CHANGES UNDERWAY

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Legal Briefings – By **Laura Simonds and Claire Dorse**

Last August we considered IP Australia's Exposure Draft outlining the potential impact of proposed changes to the *Patents Act 1990* (Cth). Following the Exposure Draft's release, IP Australia received 18 submissions in response, including submissions from AusBiotech, Medicines Australia and the International Association for the Protection of Intellectual Property.

On 25 July 2019, the *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019* (**the Bill**) was introduced to the Senate and included the following changes to the legislative scheme.

THE CHANGES

1. Introduction of an object clause

- The clause states that the object of the *Patents Act 1990* is to promote economic

wellbeing through technological innovation.

2. Changes to Crown use of patents and designs

- Crown use may be invoked for services in which the government has the primary responsibility for providing or funding.
- The government must negotiate with a patent owner prior to any exploitation. In the absence of a successful negotiation or in a case of emergency, authorisation from the Minister must be obtained.

3. Change to compulsory licences for patents

- A compulsory licence will only be granted if it satisfies the ‘public interest’ test. This replaces the current ‘reasonable requirement of the public’ test.

4. Phase-out of the Innovation Patent system

- It will no longer be possible to file an Innovation Patent after the commencement date of specific provisions.

For the purpose of this briefing we will focus on points 2, 3 and 4.

NO CHANGE TO INVENTIVE STEP

The draft legislation no longer includes an amendment to the test for inventive step. Following a range of concerns expressed in submissions, IP Australia was persuaded against raising the threshold for inventive step requirement at this time.

CHANGES IN DETAIL

CROWN USE OF PATENTS AND DESIGNS

Crown use sets out the circumstances in which the Australian Federal, State and Territory governments can access and use patented technology and registered designs without the prior authorisation of the patent applicant, the patentee, or in the case of registered designs, the registered owner.

Responding to observations of the Productivity Commission that the current Crown use provisions were unclear and failed to sufficiently provide for transparency and accountability, the Bill expands Crown use so it can be invoked for the provision of services for which any Commonwealth, State or Territory government has the primary responsibility for providing or funding.

When determining 'primary responsibility' all providers of similar services to those provided or funded by a government, including non-government providers, are to be included in the assessment.

The explanatory memorandum gives the example of diagnostic genetic testing, which is invariably undertaken by private providers, but the government's responsibility for and funding of the vast majority of genetic testing means it fulfils the 'primary responsibility' test.[1]

The Bill's amendments:

- clarify that for the Crown's exploitation to be valid, the government must have attempted to negotiate with the patent owner *"for a reasonable period"* for an authorisation to exploit the invention (for example under a licence), and have the relevant Minister's approval;[2]

- require prior notice to be given to the patent applicant or patentee at least 14 days before the exploitation commences (except in emergency circumstances);[3]

- provide that only in an emergency is a negotiation not required. An emergency could include a public health crisis such as a plague or epidemic, or pandemic. It could also include war, national security situations, perceived threats to law and order, natural disasters and other situations of urgency;[4] and

- change the remuneration provision so that the Court is now required to determine remuneration that is *"just and reasonable, having regard to the economic value of the exploitation of the invention and any other matter the court considers relevant",* rather than merely taking into account any compensation received.[5]

COMPULSORY LICENSES

A compulsory licence is an order made by the Court for a patentee to grant a licence to another party to exploit an invention. In its inquiry, the Productivity Commission found that the current compulsory licence provisions were unclear and suggested reform to improve the certainty and clarity of the legislation.

The Bill's amendments implement a stricter and more certain framework for compulsory licences and require the Court to only make an order for a compulsory licence where:

1. there is an unmet demand in Australia for an original patented invention;

2. the patent holder has failed to exploit the patent and provide reasons for this; and

3. the applicant has attempted for a reasonable period to obtain a licence on reasonable terms and conditions, but without success.

In addition to these factors, the Court must be satisfied that the grant of the licence is within the 'public interest'. This replaces the existing 'reasonable requirements of the public' test and should please patent owners as it is likely to be comparable to the public interest requirements in other areas of law.

The amendments require the Court to consider three factors in its assessment of whether a compulsory licence is in the 'public interest':

1. the benefits to the public from meeting the relevant unmet demand for the original patented invention;

2. the commercial costs and benefits to the patentee and the applicant; and

3. any other matters that the Court considers relevant, including those relating to greater competition and any impact on innovation.

Similarly to the amendments to determining remuneration for Crown use, the Bill has amended the method by which remuneration for compulsory licences is to be determined (by agreement or Court determination) and expanded the factors that the Court must take into account to include:

- *"the right of the patentee to obtain a return on investment commensurate with the regulatory and commercial risks involved in developing the invention"*; and
- *"the public interest in the efficient exploitation of the invention."*

PHASE OUT OF INNOVATION PATENTS

The innovative patent system was originally enacted in 2001 to provide a faster and less expensive way for Australian small to medium enterprises to protect their intellectual property and encourage investment in R&D. Innovation Patents protect inventions that do not meet the inventive step threshold required for standard patents.[6]

The commencement date for these provisions phasing out Innovation Patents is to be 12 months after the day the Bill receives royal asset. After the commencement date no new Innovation Patents may be filed, but in the intervening 12 month transition period:

- new complete Innovation Patent applications may be filed and will be eligible for their full 8 year term; and
- applications for Innovation Patents claiming priority from basic or provisional patent applications may be filed.

The changes however do not alter existing rights to:

- file a divisional Innovation Patent if the filing date of the parent patent precedes the commencement date; or

- convert a standard patent application to an Innovation Patent application as long as the original application is filed prior to the commencement date.

IMPLICATIONS AND OBSERVATIONS

CROWN USE AND COMPULSORY LICENCES

The amendments to the Crown use and compulsory licence provisions are generally favourable to patentees and design owners alike – in particular, the more structured system by which these provisions can be invoked and the expanded matters to be accounted for in the remuneration calculations.

However, although the amendments assist in clarifying the circumstances required for the Crown use provisions to be invoked, the expansion of the Crown use provisions have the potential to adversely affect the commercial interests of IP owners. While Crown use has rarely been invoked in Australia, the legislative attention given to this issue may be a signal that the Crown is more interested in and potentially more likely to use the Crown use provisions in the future.

Similarly, the amended compulsory licence provisions relating to the Court's consideration of statutory remuneration are potentially cause for concern for IP owners. These provisions may limit the full range of factors that may be considered by the Court and were the subject of criticism in response submissions for being unclear in scope.[7] This is especially apparent when compared to the remuneration provision for Crown use, which allows for the consideration "*of any matter the Court considers relevant.*"[8]

Further, the requirement that the Court must consider the public interest in the efficient exploitation and the regulatory and commercial risks involved in the patent's development are inherently vague and the application of these tests has the potential to dilute an invention's worth. Indeed, it is likely that Court's will find it challenging to accurately evaluate and apply the full value of R&D invested in an invention.

INNOVATION PATENTS

Despite criticism over their limited value, the mere suggestion of their abolition appears to have contributed to a 24% increase in applications for Innovation Patents in 2018.[9] Given 49% of the 2018 innovation patent applications were filed by non-residents, their removal could potentially reduce Australia's attractiveness as an innovation hot spot. Indeed, the IPTA and Medicines Australia continue to support the Innovation Patent and its role as the vehicle for protecting lower level but still valuable inventions.[10]

Although the Bill appears to abolish the innovation patent, the Second Reading speech indicates that the Bill has been designed to allow for a *"balanced phasing out"*, and it will be at least 9 years until we see the final expiration of all innovative patents.[11] This phase-out approach was criticised in some response submissions for its potential to allow strategic filing of Innovation Patents for many years to come.[12]

In the meantime, the Government still has some serious policy work to do given its announcement that it will continue to explore more direct mechanisms to better assist small to medium enterprises to leverage their IP and to access affordable IP enforcement mechanisms.[13]

NEXT STEPS

On 1 August 2019, the Senate referred the Bill to the Senate Economics Legislation Committee which covers the treasury, industry, innovation and science portfolios. The Committee's report is due by 4 September 2019.

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ENDNOTES

1. Explanatory Memorandum *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019.*

2. Proposed section 163 *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019.*

3. Ibid.

4. Proposed section 163A *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019.*

5. Proposed sections 98(2) and 165(2) *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019.*

6. Second Reading Speech, 25 July 2019, Senator Jonathon Duniam, *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019.*

7. AusBiotech submission in response to Exposure Draft.

8. Proposed section 165(2) *Intellectual Property Laws Amendment (Productivity*

Commission Response Part 2 and Other Measures) Bill 2019.

9. Australian Intellectual Property Report 2019.

10. Australian Intellectual Property Report 2019; Medicines Australia, Media Release 'Intellectual Property law amends will add to business uncertainty' 26 July 2019.

11. Second Reading Speech, 25 July 2019, Senator Jonathon Duniam. *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019.*

12. Mylan submission in response to Exposure Draft.

13. Australian Government Response to the Productivity Commission Inquiry into Intellectual Property Arrangements (August 2017).

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

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