

1994

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

PATENTS (WORLD TRADE ORGANIZATION AMENDMENTS) BILL 1994

EXPLANATORY MEMORANDUM

(Circulated by authority of the Minister for Small Business, Customs and Construction,
Senator the Hon Chris Schacht)



PATENTS (WORLD TRADE ORGANIZATION AMENDMENTS) BILL 1994

OUTLINE

The purpose of this Bill is to amend the *Patents Act 1990* to bring it into line with the standards and principles prescribed for patents in the Agreement Establishing the World Trade Organization. The changes are outlined below.

The Bill amends the Patents Act to increase the term of a standard patent from 16 years to 20 years. The new 20 year term will apply to all standard patents that are granted on or after 1 July 1995 or whose 16th anniversary falls on or after that date. Transitional provisions will be such to protect persons who might otherwise be suddenly and unfairly disadvantaged by the increased patent term.

A consequence of providing a term of 20 years for all such standard patents is that the existing special extension of term arrangements for standard patents for pharmaceutical substances will no longer be necessary. The Bill consequently repeals those provisions.

Other amendments made by the Bill will have the effect of putting the onus on the defendant to prove that there has been no infringement in certain infringement proceedings relating to patented processes and extending the conditions under which compulsory licences to work a patent are granted by a court.

The Bill also imposes additional conditions for Crown use of patented inventions.

FINANCIAL IMPACT STATEMENT

The increased term of standard patents will result in increased revenue from annual maintenance fees. There is limited information available to estimate the size of the increase, however, initial estimates, taking into account experience with existing extensions of pharmaceutical patents, are for increased revenue of about \$300,000 in 1995-96 increasing to \$1.2 million in 1998-99.

The repeal of the special extension of term arrangements for standard patents relating to pharmaceutical substances, brought about by the Bill, will result in savings for the patentees by obviating the need to file and prosecute applications for an extension of the patent term. Administrative savings will also accrue to the Patent Office and the Department of Human Services and Health which are both involved in administering the existing extension of patent term scheme. Patents unaffected by the amendments made by the Bill will continue to be dealt with under the scheme for approximately the next three years.

The Patent Office, as part of the Australian Industrial Property Organisation (AIPO), is required to cover all of its costs from fees and charges. AIPO operates on a Group 2 Trust Account arrangement and is committed to containing costs for normal operations to within inflation and to achieving productivity gains at least equal to the efficiency dividend required of the Australian Public Service. The savings and increased revenue resulting from the changes made by this Bill will be offset against future increases in fees and charges.

NOTES ON CLAUSES

PART 1—PRELIMINARY

Clause 1 - Short title etc.

1. This clause provides that the Act may be cited as the *Patents (World Trade Organization Amendments) Act 1994* and that the "Principal Act" means the *Patents Act 1990*.

Clause 2 - Commencement

2. This clause provides for the commencement of clauses 4, 5, 6, 7 and 12, which relate to the increased term of a standard patent, to be on 1 July 1995. Commencement of the other provisions of the Bill will be 28 days after the day on which it receives the Royal Assent.

Clause 3

3. This clause provides that a word or expression used in the Bill which is defined in the Principal Act has that same meaning. This clause also provides a definition for the expression "transitional standard patent" which, for the purposes of the Bill, means a standard patent granted a term of 16 years before 1 July 1995 and whose term at the time of grant is due to end on or after 1 July 1995.

PART 2—TERM OF STANDARD PATENT

Clause 4 - Term of standard patent

4. This clause amends section 67 of the Principal Act ("Term of standard patent") to increase the term of a standard patent from 16 years to 20 years.

Clause 5 - Repeal of Division

5. This clause repeals the special extension of term provisions for standard patents relating to pharmaceutical substances set out in Division 2 of Part 3 of Chapter 6 of the Principal Act ("Extension of term—standard patents"), consequent on the amendment made by clause 4. Under that Division, a patentee could have sought a four year extension of term. A 20 year term will now be applicable for all standard patents as provided for in clause 7.

Clause 6 - Further amendments

6. This clause provides for amendments consequent on those made by clause 5.

Clause 7 - Application

7. Subclause (1) provides that this Part applies to standard patents that are granted on or after 1 July 1995 and to transitional standard patents as defined in clause 3. The effect is that the increased term of a standard patent, brought about by clause 4, will apply to all patents whose 16th anniversary falls on or after 1 July 1995, regardless of whether the patent term had been extended under Division 2 of Part 3 of Chapter 6 of the Principal Act ("Extension of term—standard patents").

8. If the term of a transitional standard patent has been extended, subclause (2) provides that any action relating to that extension is deemed never to have been taken.

Clause 8 - Transitional

9. This clause deals with certain transitional matters related to transitional standard patents whose term could otherwise be extended under the existing extension of term arrangements.

10. Because the increased term of a standard patent will apply to transitional standard patents from 1 July 1995 (see paragraphs 2 and 7, above), this clause provides, in effect, that:

any application for an extension of the term of a transitional standard patent that has not been determined as at the commencement of this clause; and

any appeal to the Federal Court under section 78 of the Principal Act ("Appeals") relating to an application for an extension of the term of a transitional standard patent that has not been determined as at the commencement of this clause;

is to be taken to have been withdrawn. With the exception of the Court making an order as to costs, no further action under the Principal Act will be possible in relation to the application or appeal, nor will it be possible to make an application for an extension of term of a transitional standard patent under the Principal Act as from the commencement of this clause.

PART 3—INFRINGEMENT

Clause 9

11. This clause inserts new section 121A ("Burden of proof—infringement of patent for a process") which deals with the burden of proof in infringement proceedings of a patent for a process for obtaining a product.

12. In the normal course of events, it is up to the patentee or the exclusive licensee to prove to the court that infringement of a patent has taken place. Where the alleged infringement is of a patented process for obtaining a product, it is often difficult, if not impossible, to find out the process actually used by the defendant.

13. This clause provides that in proceedings for infringement of a patented process, the defendant has the burden of proving that their product, which is identical to the product obtained by the patented process, was not obtained by the patented process, if the court is satisfied that:

there is a substantial likelihood that the identical product was made by the patented process; and

- the patentee or the exclusive licensee has been unable through reasonable efforts to determine the process actually used.

Clause 10 - Application

14. This clause provides that the burden of proof provisions of clause 9 do not apply to an action for infringement of a patent that was pending before the court immediately before the commencement of this Part.

PART 4—COMPULSORY LICENCES

Clause 11 - Compulsory licences

15. This clause amends section 133 of the Principal Act ("Compulsory licences") to provide additional conditions to be taken into account when deciding to grant a compulsory licence to work a patented invention. Those conditions include the following:

- the applicant for a compulsory licence must have made reasonable efforts, but without success, to obtain authorisation from the patentee to work the invention on reasonable terms and conditions; and
- the patentee must be paid an amount agreed between the patentee and the applicant for the compulsory licence or, in the absence of such agreement, an amount determined by the court to be just and reasonable.

16. This clause also provides for the grant, in certain circumstances, of a licence to work a related patented invention if the patented invention in respect of which the initial application was made cannot be worked without infringing the related patent. The conditions under which a compulsory licence can be revoked are also specified.

Clause 12 - Transitional

17. This clause sets out transitional provisions for situations in which persons might find themselves at a sudden commercial disadvantage in the short term because of the increased patent term effected by Part 2 of the Bill.

18. This clause provides that an application may be made for the grant of a compulsory licence to exploit an invention the subject of a transitional standard patent. This clause does not apply to a patented invention that is a pharmaceutical substance in respect of which the patent term could have been extended under Division 2 of Part 3 of Chapter 6 of the Principal Act ("Extension of term—standard patents"), had that Division not been repealed.

19. Subclauses (2) and (4) set out the circumstances in which a person may apply to a prescribed court for an order requiring the patentee to grant a licence to exploit the patented invention. Those circumstances are where:

a person has made a significant investment before 1 October 1994 in respect of the exploitation of the patented invention; or

a licensee's licence would expire, or expired, on the 16th anniversary of the transitional standard patent.

20. Investment made after 1 October 1994 will not constitute a ground for a compulsory licence under the transitional arrangements of this clause because after that date the person making the investment will do so in the knowledge that the term of patent will, on or after 1 July 1995, increase from 16 years to 20 years (see clause 4).

21. In relation to the first circumstance of paragraph 19 above, subclause (3) empowers the court to make an order if it is satisfied that the person made the investment in good faith and did not infringe the patent in preparing for its exploitation.

22. In the second circumstance, subclause (4) empowers the court to make an order for so long as the patent remains in force. In making an order under subclause (4) regard must be had to any terms and conditions attached to the grant of the initial licence.

23. Subclauses (6) to (12) mirror the relevant conditions and procedures that apply in relation to the grant of a compulsory licence under the provisions of Chapter 12 of the Principal Act ("Compulsory licences and revocation of patents"), as amended by clause 11.

24. Subclause (13) ensures that the patent revocation provisions of section 134 of the Principal Act ("Revocation of standard patent after grant of compulsory licence") do not apply in the case of a compulsory licence granted under the transitional arrangements of this clause. Those revocation provisions are related to the patentee failing to satisfy the reasonable requirements of the public with respect to the patented invention, which is not a consideration for the grant of a compulsory licence under these transitional arrangements.

Clause 13 - Application

25. This clause provides that the amendments made by this Part do not apply to an application made under section 133 of the Principal Act ("Compulsory licences") or an order made under section 133 or 134 ("Revocation of standard patent after grant of compulsory licence") of the Principal Act before the commencement of this Part.

PART 5—CROWN USE

Clause 14 - Exploitation of inventions by Crown

26. This clause inserts new subsection 163(3) into the Principal Act to the effect that, subject to section 168 of the Principal Act ("Supply of products by Commonwealth to foreign

countries"), exploitation of an invention for services of the Commonwealth or of a State is limited to exploitation necessary for the proper provision of those services within Australia.

Clause 15 - Remuneration and terms for exploitation

27. Subsection 165(1) of the Principal Act ("Remuneration and terms for exploitation") provides that where the Crown has exploited an invention for its services, no remuneration is payable to the nominated person or the patentee in certain circumstances. This clause omits that subsection to ensure that the nominated person or the patentee is paid adequate remuneration where the invention concerned is exploited by the Crown. To emphasise their right to compensation, clause 15 also amends subsection 165(2) of the Principal Act to make it clear that the terms for the exploitation of the invention include terms concerning the remuneration payable.

Clause 16

28. This clause inserts new section 165A into the Principal Act to provide that, on application from the nominated person or the patentee, a prescribed court may declare, if it is satisfied that it is fair and reasonable to do so, that the exploitation of the invention by the Commonwealth or the State is not, or is no longer, necessary for the proper provision of services of the Commonwealth or of the State. The court may also order that the Commonwealth or the State is to cease to exploit the invention. In making such an order, the court must ensure that the legitimate interests of the Commonwealth or of the State are not adversely affected by the order.

Clause 17 - Application

29. This clause provides that the amendments to the Crown use provisions made by this Part do not apply to an invention that was being exploited by the Commonwealth or a State under section 163 of the Principal Act ("Exploitation of inventions by Crown") immediately before the commencement of this Part.

SCHEDULE

30. The Schedule sets out the consequential amendments of the Principal Act provided for in clause 6.