Public interest compulsory licensing under the Patents Act 1990 (Cth): Real incentive or a barrier to working?

Dr Charles Lawson*

Compulsory licensing of patents under the Patents Act 1990 (Cth) is asserted to encourage the licensing and working of inventions sooner, serving as an effective incentive for patent holders to grant a licence voluntarily and on their own terms. However, the meaning of the statutory provision is uncertain. This article presents a textual analysis of the provisions to show that the likely meanings are practically uncertain and probably very limited. The article concludes that to be a real incentive the provisions need to be revisited by Parliament and recast in meaningful and purposeful text.

INTRODUCTION

The present formulation of a “compulsory licence”¹ in the Patents Act 1990 (Cth) traces its origins back through the Patents Act 1952 (Cth)² and the Patents Act 1903 (Cth)³ to the first appearance of a uniform provision in the United Kingdom in the Patents, Designs and Trade Marks Act 1883 (IMP).⁴ The Patents Act, s 133 as amended, now provides, in part:

(1) … a person may apply⁵ to the Federal Court,⁶ after the end of the prescribed period,⁷ for an order⁸ requiring the patentee to grant the applicant a licence to work⁹ on the patented invention.¹⁰ …

(2) After hearing the application, the court may, subject to this section, make the order if satisfied that:

(a) all the following conditions exist:

¹ Senior Lecturer, Australian Centre for Intellectual Property in Agriculture, Griffith Law School, Griffith University. Thanks to Stephen Hubicki for valuable insights and discussions. I am, however, entirely responsible for any errors or omissions.
² Patents Act 1952 (Cth), s 108.
³ Patents Act 1903 (Cth), s 87.
⁵ The application must include “(i) the name and address of the applicant; and (ii) the address for service in relation to the application; and (iii) the identity of the patent; and (iv) if the applicant relies on the ground mentioned in para 133(2)(a) of the Act – facts supporting the assertion that the reasonable requirements of the public with respect to the patented invention have not been satisfied; and (iva) if the applicant relies on the ground mentioned in para 133(2)(b) of the Act – facts supporting the assertion that the patentee has contravened, or is contravening, Pt IV of the Trade Practices Act 1974 (Cth) or an application law (as defined in section 150A of that Act) in connection with the patent; and (v) for an innovation patent – the date that the patent was certified”, and “a declaration by the applicant to the effect that the facts in the statement are true to the best of the knowledge of the applicant”: Patents Regulations 1991 (Cth), reg 12.1(2)(a), (b).
⁶ Noting that an appeal may be open to the High Court: see Federal Court Act 1976 (Cth), s 33.
⁷ This is “the period of 3 years after the date of sealing of the patent to which the application relates”: Patents Regulations 1991 (Cth), reg 12.1(1).
⁸ Noting that “[a]n order operates, without prejudice to any other method of enforcement, as if it were embodied in a deed granting a licence and executed by the patentee and all other necessary parties”: Patents Act 1990 (Cth), s 133(4).
⁹ The term “work’, in relation to a patented invention, means: (a) where the invention is a product – make or import the product; or (b) where the invention is a method or process – use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use”: Patents Act 1990 (Cth), Sch 1.
¹⁰ The chapeau of this subsection was also amended to address certified “innovation patents”: Patents Amendment (Innovation Patents) Act 2000 (Cth), s 3 and Sch 1 (item 66).
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(i) the applicant has tried for a reasonable period, but without success, to obtain from the patentee an authorisation to work the invention on reasonable terms and conditions;

(ii) the reasonable requirements of the public with respect to the patented invention have not been satisfied;

(iii) the patentee has given no satisfactory reason for failing to exploit the patent; ...

This article analyses this provision\textsuperscript{11} to assess whether the text can address the Australian Government’s policy objectives to “promote the efficient use of patents and promote competition”\textsuperscript{12} and “incentivise” the licensing and working of inventions sooner.\textsuperscript{13} This is a critical question as compulsory licensing is one of the very few avenues available to limit patent abuse and misuse, and has become (potentially) increasingly important with the lowering of the patent threshold standards of subject matter and obviousness, albeit that some limits to these thresholds still remain.\textsuperscript{14} However, to satisfy its policy objectives the meaning of the compulsory licensing provisions should be clear, so that patent holders really are “incentivised” to license and work their inventions earlier and potential compulsory licence applicants can structure their affairs so as to avoid the unnecessary expenses pursuing uncertain licence grants.

The article is structured as follows: the next parts address the possible meaning of the text in s 133(2)(a)(i), (ii) and (iii) respectively. The following part sets out the conclusions that the uncertain meanings of the text impose significant thresholds for evidence (proof), qualifications and discretions. With such uncertainty, prospective applicants are likely to be cautious about incurring the expense in making an application, challenging the Australian Government’s contention that compulsory licensing promotes more licensing and the working of inventions sooner. The article concludes that for “compulsory licensing” to be a real incentive the provisions need to be revisited by Parliament and recast in meaningful and purposeful text.

\textbf{SECTION 133(2)(A)(i): TRIED FOR AN AUTHORISATION FOR A REASONABLE PERIOD ON REASONABLE TERMS AND CONDITIONS}

The threshold to the \textit{Patents Act}, s 133(2)(a)(i) has elements of (a) trying to obtain an authorisation from the patent holder without success, (b) that this was tried for a “reasonable period”, and (c) that the authorisation was sought on “reasonable terms and conditions”. These requirements were originally introduced into the Act by the \textit{Patents (World Trade Organisation Amendments) Act 1994 (Cth)}\textsuperscript{15} and then recast into their present form by the \textit{Intellectual Property Laws Amendment Act 2006 (Cth)}.\textsuperscript{16} The original amendment was necessary to comply with Australia’s commitments to the World

\textsuperscript{11} There is no published textual analysis of these terms, albeit there are assertions that the likely meaning of s 133(2)(a) is uncertain: see, eg, Australian Law Reform Commission (ALRC), \textit{Genes and Ingenuity: Gene Patenting and Human Health}, ALRC 99 (2004) pp 617-620 and references therein. Notably the related Crown use (or government use) provisions, \textit{Patents Act 1990 (Cth)}, ss 163-170, have recently been considered in Dembo T, “An Examination of the Crown Use Provisions in the Patents Act” (2007) 18 AIPJ 70; and the competition test amendments after the \textit{Intellectual Property Laws Amendment Act 2006 (Cth)} have recently been considered in Lawson C, “Compulsory Licensing under the Patents Act 1990 (Cth) to Remedy Anti-competitive Conduct under the Trade Practices Act 1974 (Cth)” (2008) 36 ABLR (forthcoming).


\textsuperscript{13} Explanatory Memorandum, n 12, p 12.


\textsuperscript{15} See \textit{Patents (World Trade Organisation Amendments) Act 1994 (Cth)}, s 11.

\textsuperscript{16} \textit{Intellectual Property Laws Amendment Act 2006 (Cth)}, Sch 8, items 2, 3.
Trade Organisation’s Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). TRIPS requires that Australian laws only allow “other use without the authorisation of the rights holder” when such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time.

This provision has not yet been interpreted by a binding WTO authority. The plain text suggests that unauthorised use of the patented protected products and processes requires prior attempts to obtain a licence “within a reasonable period of time” and on “reasonable commercial terms and conditions”. This authorising of non-voluntary uses of patent protected products and processes was included in TRIPS negotiations accepting that non-voluntary authorisations were an appropriate limitation on a patentee’s conferred rights. However, the scope of the use that could not be agreed during the negotiation and remained controversial (particularly the ground of “non-working”), with a diplomatic resolution being found in a final text focussing instead on the pre-conditions limiting the authorisation. As a consequence, the negotiated text is open to broad, and potentially conflicting, interpretations. As a consequence, the interpretation of TRIPS does not yet provide any insight into the likely meaning of the Patents Act text.


18 Noting that the “other use” refers to “other use than that allowed under Art 30”, that provides “Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties”. TRIPS, Art 30, Art 31 (fn).

19 TRIPS, Art 31(b).

20 Notably in Brazil – Measures Affecting Patent Protection (2000) WT/DS199/1 the dispute was resolved before a Panel was engaged by the Brazil Government agreeing to consult with the US Government before issuing a compulsory licence over a patent held by a US resident without accepting that their laws were necessarily inconsistent with TRIPS, Art 31. See Office of the United States Trade Representative, United States and Brazil Agree to Use Newly Created Consultative Mechanism to Promote Cooperation on HIV/AIDS and Address WTO Patent Dispute, Press Release, 25 June 2001, 01-46; World Trade Organisation, Brazil – Measures Affecting Patent Protection: Notification of Mutually Agreed Solution (2001) WT/DS199/4.


24 See GATT Secretariat, Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations (1990) MTN.TNC/W/35/Rev.1, Art 34.

25 As an indication that some interpretation issues remain unresolved, some members continue to include local working measures in their domestic laws: see Watal, n 22, pp 317-319; see also Reichman J and Hasenzahl C, Non-voluntary Licensing of Patented Inventions: Historical Perspective, Legal Framework under TRIPS, and an Overview of the Practice in Canada and the USA, UNCTAD-ICTSD Project on IPRs and Sustainable Development Issue Paper No 5 (2003) pp 13-14.
The phrases “reasonable period” and “reasonable terms and conditions” are not defined in the *Patents Act* or considered in any Australian cases. However, the English cases suggest that “reasonableness”, in the context of the “reasonable requirements of the public with respect to the patented invention” (s 133(2)(a)(ii)), will be considered according to the formulation of Luxmoore J in *Brownie Wireless Co’s Application* (1929) 46 RPC 457 at 473: “an elastic phrase which can only be construed with certainty with reference to the actual facts of each particular case”. The reasonableness inquiry would, however, in s 133(2)(a)(i) focus for “reasonable period” on the duration and circumstances of the negotiations as opposed to the content of the proffered licence, and for “reasonable terms and conditions” on the terms and conditions of the proffered authorisation to work the invention. However, the necessary threshold of reasonableness is unclear, and predicting how a court might assess the threshold is presently uncertain.

**SECTION 133(2)(A)(II): SATISFYING THE REASONABLE REQUIREMENTS OF THE PUBLIC**

The threshold for the key phrase “the reasonable requirements of the public with respect to a patented invention” is qualified by the *Patents Act*, which provides an exhaustive statement about the content of this requirement. The *Patents Act*, s 135 provides, in part:

1. … the reasonable requirements of the public with respect to a patented invention are to be taken not to have been satisfied if:
   - an existing trade or industry in Australia, or the establishment of a new trade or industry in Australia, is unfairly prejudiced, or the demand in Australia for the patented product, or for a product resulting from the patented process, is not reasonably met, because of the patentee’s failure:
     - to manufacture the patented product to an adequate extent, and supply it on reasonable terms; or
     - to manufacture, to an adequate extent, a part of the patented product that is necessary for the efficient working of the product, and supply the part on reasonable terms; or
     - to carry on the patented process to a reasonable extent; or
     - to grant licences on reasonable terms; or
   - a trade or industry in Australia is unfairly prejudiced by the conditions attached by the patentee (whether before or after the commencing day) to the purchase, hire or use of the patented product, the use or working of the patented process; or
   - if the patented invention is not being worked in Australia on a commercial scale, but is capable of being worked in Australia.

2. If, where para (1)(c) applies, the court is satisfied that the time that has elapsed since the patent was sealed has, because of the nature of the invention or some other cause, been insufficient to enable the invention to be worked in Australia on a commercial scale, the court may adjourn the hearing of the application for the period that the court thinks sufficient for that purpose.

The construction of this provision suggests that one or more of paras (a), (b) or (c) must be established before the reasonable requirements of the public can be taken not to have been satisfied. The construction of the similarly formed *Patents Act 1952* (Cth) provision was considered by Menzies J in *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572 at 574 and construed as requiring proof of any one of the statutory elements of s 135(1)(a), (b) or (c). The disputed patent concerned improvements to an explosive bolt gun used to fasten materials together, and in particular, “the automatic return of the driving ram from its fired position to its firing position” (at 576). Before the petition was lodged, Fastening Supplies had bought and sold similar articles that

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26 The term “‘work’, in relation to a patented invention, means: (a) where the invention is a product – make or import the product; or (b) where the invention is a method or process – use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use”: *Patents Act 1990* (Cth), Sch 1.

27 See *Robin Electric Lamp Co’s Application* (1915) 32 RPC 202 at 213 (Warrington J) considering a similarly constructed *Patents and Designs Act 1907* (UK), s 24, and reaching a similar conclusion about construction. See also, eg, *Brownie Wireless Co’s Application* (1929) 46 RPC 457 at 470 (Luxmoore J); *Cathro’s Application* (1934) 51 RPC 75 at 80 (Luxmoore J); *McKechnie Bros Ltd’s Application* (1934) 51 RPC 461 at 466-467 (Luxmoore J); *Kamborian’s Patent* [1961] RPC 403 at 403-404 (Assistant-Comptroller).
would have infringed the patent and had been advised to cease the sales and account for the profits by Olin Mathieson (at 577). In response to this, Fastening Supplies then sought a licence, but was advised by Olin Mathieson that Ramset (the licensed Australian subsidiary) was its exclusive licensee in Australia, and that it was not prepared to grant a sublicense (at 577-578). In construing the relevant provision (Patents Act 1952 (Cth), s 110) Menzies J said (at 575):

An examination of the circumstances set out in the lettered paragraphs of section 110 suggests that the objects of the compulsory licensing provisions of the Acts cover both (1) fostering Australian manufacturing industry to make the patented article or to use the patented process and (2) ensuring that the Australian demand for the patented article or articles made in accordance with the patented process should be reasonably met whether from local production or from imports. It could, therefore, be, that the reasonable requirements of the public would not have been satisfied simply by the importation of enough patented articles to meet the Australian demand … The circumstance that to foster Australian manufacture is an object of the provisions as a whole might well dictate that in some circumstances a compulsory licence should be confined to the use of the invention for local manufacture and the sale of the products of such manufacture and should not afford the licensee the right to import and sell patented articles.

The meaning of the substance of s 135(1)(a), (b) or (c) has been considered to some extent by case law in Australia and the UK. These are now considered.

An “existing” or the “establishment of a new” “trade or industry”

The provision variously addresses an “existing” or “establishment of a new” “trade or industry in Australia”. Menzies J in Fastening Supplies did not expressly address these terms as they appeared in the Patents Act 1952 (Cth), s 110(1) although he did make general reference to a “market” for the patented articles without determining the meaning of this term.28 However, further insights into the Patents Act provisions can be found in UK authority. In the UK High Court of Justice in Robin Electric Lamp Co’s Application (1915) 32 RPC 202, in considering the Patents and Designs Act 1907 (UK), s 24(5)(a) provision of “any existing trade or industry, or the establishment of any new trade or industry in the United Kingdom”, W arrington J stated (at 213-214):

the expression “trade or industry” seems to me to be used in a wide sense just as we speak of the cotton trade or industry, or woollen trade or industry; so that it is not enough to establish that a particular trade is prejudiced, it must further prove that the trade or industry as a whole is thus affected. So also the establishment of a new trade or industry is, in my opinion, a different thing altogether from the entry of a particular person into an existing trade or industry. It is true that the establishment of a new trade or industry may, and in some cases, must, be the work of one individual, but I think there would be no difficulty in distinguishing such cases from those to which I have referred.29

Later, Luxmoore J in the High Court of Justice in Brownie Wireless addressed the Patents and Designs Act 1919 (UK), s 27(2)(d) phrase “the trade or industry of the United Kingdom”30 He considered the phrase to “obviously” be “a phrase capable of the most general interpretation”31 and adopted the meaning articulated in Robin Electric by W arrington J (above).32

Later still, the Assistant-Comptroller in the UK Patent Office in Kamborian’s Patent [1961] RPC 403 considered the Patents Act 1949 (UK), s 37(2)(d)(iii) that used the phrase “the establishment or development of commercial or industrial activities” in the UK. The Assistant-Comptroller accepted

28 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 575.
29 See also Brownie Wireless Co’s Application (1929) 46 RPC 457 at 471; The Co-operative Union Ltd’s Application (1933) 50 RPC 161 at 165-166; Cathro’s Application (1934) 51 RPC 75 at 83-84 (the latter two cases considering the Patents and Designs Act 1919 (UK), s 27(2)(d)).
30 Brownie Wireless Co’s Application (1929) 46 RPC 457 at 472-477. Notably, the difference between Patents and Designs Act 1907 (UK), s 24 and s 27 was that the former addressed patent abuse of trade of the UK irrespective of what happened abroad, while the latter addressed patent use favoured industry development abroad at the expense of UK industries: see Hatschek’s Patents (1909) 26 RPC 228 at 239 (Parker J). See also Robin Electric Lamp Co’s Application (1915) 32 RPC 202 at 212.
31 Brownie Wireless Co’s Application (1929) 46 RPC 457 at 471.
32 See also Cathro’s Application (1934) 51 RPC 75 at 83 (Comptroller-General) considering Patents and Designs Act 1919 (UK), s 27(2)(d)).
that “development” meant “any increase in the size of a business, whether it be associated with greater production of one machine or the introduction of a new design of an existing machine” (at 407). Significantly, the Assistant-Comptroller rejected the assertion that the phrase “was not intended to include the continued working of the patent by someone who has been so doing for some time past, but the development must be construed to mean expansion or growth of the activity as a whole in the United Kingdom” (at 407). In the circumstances of that case, the patentee had terminated an existing licence and withdrew the offer of a new licence where the petitioner had developed a new model of a machine incorporating the patented invention. The Assistant-Comptroller concluded that terminating an existing licence and withdrawing the offer of a new licence was prejudicial to “the establishment or development of commercial or industrial activities” (at 407).

Based on these decisions the phrase “existing” or “establishment of a new” “trade or industry in Australia” might be expected to be broadly determined in the Patents Act to mean the trade or industry as a whole, in the sense of “the cotton trade or industry, or woollen trade or industry”.

“Unfairly prejudiced … trade or industry”

The phrase “unfairly prejudiced … trade or industry” has not been directly considered in Australia.33 In the UK, the meaning of “unfairly prejudiced” was obliquely considered in Robin Electric in the context of the Patents and Designs Act 1907 (UK), s 24(5)(a) that “any existing trade or industry, or the establishment of any new trade in the United Kingdom is unfairly prejudiced” as a consequence of failing to supply the patented article at all, or on “reasonable terms”. The petitioners argued that the patentee’s offer, in response to the petitioner’s request for a licence, to supply drawn tungsten wire, or to manufacture bulbs, was at an unacceptable high price so as to “unfairly prejudiced” trade or industry.34 After determining that the scope of the “trade or industry” for drawn tungsten wire precluded the petitioner, Warrington J in the High Court of Justice considered that the supply or manufacture at the price premium would not seriously burden consumers, and that the existing supply of bulbs was sufficient to meet the demands of the public. As a consequence, there was no evidence showing the supply or price was so unreasonable that it might be said to satisfy the threshold of “unfairly prejudiced”, albeit that there might be some “prejudice”.35

Later, in Brownie Wireless the petitioner was a UK manufacturer of an amplifier that was compatible with crystal and valve radio sets, and wanted to expand their operations to manufacturing valve sets that would have infringed some existing valve patents.36 These patents were already widely licensed with about 1,000 of the 2,500 licences granted in the general form that was offered to the manufacturer. The petitioner argued that a proffered licence unfairly imposed a royalty on non-patented articles that would prejudice trade.37 The argument concerned the Patents and Designs Act 1919 (UK), s 27(2)(d) that by “the refusal of the patentee to grant a licence on reasonable terms the trade or industry of the United Kingdom … is prejudiced”. The proffered but rejected licence had been found to be reasonable on the basis of efficiency, in that the broader market for the patented invention was not unreasonably affected. The prejudice argument was also then rejected, Luxmoore J saying:

This is really an objection to the reasonableness of the licence, and I have dealt with this. It cannot, I think, be a ground for holding that the applicant’s trade will be prejudiced by a refusal to license because, unless a licence is granted, the ground of objection cannot possibly arise. It is admitted that the [applicant] is not proposing to establish a new trade or industry. Further, the [applicant] is not seeking the licence to enable it to work some patent of its own, nor is it proposing to produce some essentially new article, patented or unpatented. All that the [applicant] desires to do is enter the trade or industry of

33 While in Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572, Menzies J did not identify which provision in Patents Act 1952 (Cth) s 110(1) he was dealing with, it seems likely that he was addressing subs (1)(a)(i), (1)(a)(ii) and (1)(c), and very unlikely that he was dealing with subs (1)(a)(iii) and (1)(b) that dealt with “unfairly prejudiced”.

34 Robin Electric Lamp Co’s Application (1915) 32 RPC 202 at 214-215.

35 Robin Electric Lamp Co’s Application (1915) 32 RPC 202 at 212 at 215.

36 Brownie Wireless Co’s Application (1929) 46 RPC 457 at 467-468.

37 Brownie Wireless Co’s Application (1929) 46 RPC 457 at 471.
manufacturing valve receiving sets. The trade generally cannot be prejudiced by the refusal of the licence, and it is impossible to say that the [applicant’s] existing trade is prejudiced by the refusal.38

The phrase “unfairly prejudiced” was again considered in Kamborian in the context of the Patents Act 1949 (UK), s 37(2)(d)(iii) that “the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced”. The applicants sold their interest in a company with the patent holder that had an exclusive licence to work the patent and then took an exclusive sub-licence over the patent. The applicant manufactured the patent protected machines including making some developments towards a new model of the machine. The patent holder subsequently terminated this exclusive sub-licence, offered a new non-exclusive licence, and then withdrew that offer. The patent holder later sub-licensed another company that manufactured the patented machines. In considering “unfairly prejudiced”, the Assistant-Comptroller opined that in withdrawing the offer, and in effect refusing to license on any terms, the applicants had been prejudiced by being deprived of the right to manufacture at all.39 The question was whether this was “unfair”. The applicants asserted that the refusal to grant a new licence after their considerable expenditure (£10, 000) amounted to “unfair prejudice”. In rejecting this contention, the Assistant-Comptroller considered that the termination of the former licence was “legal” and not “capricious” and was merely a commercial risk that the applicants must have appreciated when making their expenditures before securing a licence – “an ordinary business risk with full knowledge of the possible consequences”.40 In such circumstances the refusal did not “unfairly” prejudice the “development of commercial or industrial activities in the United Kingdom”, although it did constitute a “prejudice”.

Unfortunately, each of the cases rejects an assertion of “unfair prejudice” providing no insight into where that threshold of “unfair” might rest. However, these cases do suggest that the threshold is likely to be substantial, and merely adversely affecting a trade or industry is not sufficient. Perhaps importantly, this is consistent with, in modern parlance, the elements of a “market”. In Robin Electric, Brownie Wireless and Kamborian the petitioners and applicant were attempting to enter an existing market for the patent protected product, and the decisions were directed to determining whether the “prejudice” was “unfair”, focusing on that broader market, as opposed to the petitioners and applicant. In each case, individual unfairness through a too high price (Robin Electric and Brownie Wireless) or refusing to license at all (Kamborian’s Patent) was apparent, but broader “market” unfairness was absent.

“Reasonable terms”

The requirement for “reasonable terms” arises in the Patents Act context of supplying the “patented product”, or “a part of the patented product that is necessary for the efficient working of the product”, and granting licences.41 Menzies J in Fastening Supplies considered the provision in the Patents Act 1952 (Cth), s 110(1) that “[t]he reasonable requirements of the public shall be deemed not to have been satisfied: (a) if, by reason of the default of the patentee: (i) to manufacture to an adequate extent, and supply on reasonable terms, the patented article”. The applicant sought a licence and the patentee refused, with its Australian exclusive licensee eventually making the bolt gun available by the time of the hearing. Menzies J found that the “reasonable requirements of the public” were not satisfied at the application date although they were by the hearing date.42 Presumably, a failure to supply and license at all would have satisfied the threshold requirement of “reasonable terms” under the Patents Act 1952 (Cth). However, where the threshold might lie where some terms are proffered is uncertain. The UK cases again provide some insights.

In Robin Electric the phrase “reasonable terms” arose in the context of the Patents and Designs Act 1907 (UK), s 24(5)(a) providing: “if by reason of the default of the patentee to … supply on

38 Brownie Wireless Co’s Application (1929) 46 RPC 457 at 478.
41 Patents Act 1990 (Cth), s 135(1)(a)(i), (ii), (iv).
42 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 582.
reasonable terms the patented article, or any parts thereof which are necessary for its efficient working … or to grant licences on reasonable terms”. The petitioners argued that the eventual offer to supply the drawn tungsten wire for the incandescent bulbs at a price greater than charged abroad, and that would more than double the purchase price of the bulbs, was unreasonable.\footnote{Robin Electric Lamp Co’s Application (1915) 32 RPC 202 at 212 at 213.} In rejecting this proposition, Warrington J does not appear to have considered that the price was unreasonable, although “no attempt” was made to show the asking price was unreasonable. The determinative point, however, was that the price requested of the petitioners was to be assessed “from the public point of view” and not the individual perspective of the petitioners.\footnote{Robin Electric Lamp Co’s Application (1915) 32 RPC 202 at 212 at 215-216.} From this perspective, the issue was framed as whether the term was “unreasonable” from the perspective of a broader “market” rather than the individual applicant.

In \textit{Brownie Wireless}, in the context of the \textit{Patents and Designs Act 1919} (UK), s 27(2)(d) “by reason of the refusal of the patentee to grant a licence on reasonable terms”, a UK manufacturer of an amplifier that was compatible with crystal and valve radio sets wanted to expand their operations to manufacturing valve sets that would have infringed some existing valve patents. Recall these patents were already widely licensed and a further licence was offered to the manufacturer according to a general form used by the patent holder, although that form was not universally used. Further, about 1,000 of the 2,300 licences already granted were in the general form. In response to the failed attempts to obtain a licence the manufacturer sought a compulsory licence arguing that the proposed terms were not reasonable. In addressing this point, Luxmoore J said:

\begin{quote}
The grant of the licence which is refused must be a grant “on reasonable terms”, an elastic phrase which can only be construed with certainty with reference to the actual facts of each particular case. No one can hope to lay down any exhaustive rules to enable the question whether the terms of a proposed licence are reasonable or not to be answered with certainty in every case. The answer to the question must in each case depend on the careful consideration of all the surrounding circumstances. The nature of the invention covered by the patent, the terms of the licences (if any) already granted, the expenditure and liabilities of the patentee in respect of the patent, the requirements of the purchasing public, and so on.\footnote{Brownie Wireless Co’s Application (1929) 46 RPC 457 at 475-476.}
\end{quote}

Applying this consideration to the facts, Luxmoore J considered each of the manufacturer’s contentions of unreasonableness: that the royalty was too high; that the licences were not offered for particular patents, only the whole group of patents; that the licence tied the sale of values to only those valves manufactured by a subsidiary of the patent holder; that the export or sale for export of a product made under the licence was prohibited, and potentially included non-patented articles; and that the royalties applied to every appliance sold by the licensee irrespective of whether or not it contained the patented product(s). Luxmoore J considered the evidence showed that the other 1,000-odd general form licensees were prepared to pay the requested royalty and this was sufficient to show that the proffered royalty was reasonable.\footnote{Brownie Wireless Co’s Application (1929) 46 RPC 457 at 478.} A similar conclusion also applied to each of the manufacturer’s other contentions.\footnote{There appears to be some confusion in the judgment on this issue as before the Comptroller there was some uncertainty about the constriction of the licence provision and whether it dealt with non-patented articles that were covered by the licence. Luxmoore J glossed over this issue saying “I see no substantial ground for any such doubt. The clause expressly relates to ‘Any
because such a restraint was a “common occurrence” and not greater than the privilege conferred.  49 Luxmoore J further considered that it was entirely reasonable for a patent holder to impose the royalty on closely related articles as an efficient way of ensuring the royalty was paid on the patented products. The final conclusion was that the terms of the proposed general licence were reasonable and the application for the compulsory licence was refused.  50

Dealing with similar patents, Loewe Radio Company’s Application (1929) 46 RPC 479 followed immediately after Brownie Wireless under the same Patents and Designs Act 1919 (UK), s 27(2)(d). Here the so-called “Valve patents” and “Circuit patents” concerned broadcast loud speaker receiving sets (at 484). By the time of the application some 1,000 general form licences (the same licence addressed in Brownie Wireless) had been made for the Circuit patents. Meanwhile, the Valve patents were licensed differently, with each licence detailing specific arrangements (at 485). The applicants manufactured wireless apparatus with “new and special features” that would have infringed the Valve patents and Circuit patents in the UK. Again the patent holder entered into negotiations and would only license a suite of patents instead of the specific patents the applicants had identified, and only if the applicant was not a party to an action that was challenging the validity of the patent holder’s patents (at 486-489). At this stage the applicants broke off negotiations and sought a compulsory licence asserting that there had been a refusal to license, or alternatively, that the proposed conditions were unreasonable. Luxmoore J concluded that there had been no refusal, and that it was premature to assert unreasonable terms as no terms were ever discussed before negotiation broke down from the applicant’s side (at 490). While providing no insight into what terms might be reasonable, the decision shows there must actually be an attempt at negotiation.  51

Later, in Cathro’s Application (1934) 51 RPC 75, in the context of the Patents and Designs Act 1919 (UK), s 27(2)(c) that “the demand for the patented article in the United Kingdom is not being met … on reasonable terms”, the Comptroller-General opined (at 82):

I think in the first place that the expression “on reasonable terms” … refers mainly to the price charged for the patented article, and I am fortified in this view by a consideration of the summary of the kinds of abuses dealt with by s 27 given by Mr Justice Luxmoore in Brownie Wireless Co’s Application where the reference to “excessive price” clearly refers to the abuse covered by para (c). No doubt, however, this statement of the learned judge should not be considered to be exhaustive as to the scope of the paragraph, and it may be that in some cases other terms than those referring merely to price should be taken into account.

In the particular circumstances, the applicant had argued that demand for the so-called “Hull patent” was not being met on reasonable terms because “there are not available in this country [the UK] valves of the American type manufactured here [the UK] under the patent”. In rejecting this argument, the Comptroller-General considered that even though the particular demands for American type valves manufactured in the UK according to the Hull patent were not being met on “reasonable terms”, the demand was being “sufficiently met” by American manufactured American type valves according to the Hull patent (at 82). In dealing with the so-called “Mitchell patent”, whose efficient construction would fall within the Hull patent, there was no evidence to show an unmet demand, so there was no question as to whether the terms were reasonable (at 84-85). In other words, demand can be satisfied by importation, and the reasonableness requires evidence and not merely assertions.

Evidence addressing “reasonable terms” was considered in Kamborian, in the context of the Patents Act 1949 (UK), s 37(2)(d)(iii) provision that “by reason of the refusal of the patentee to grant apparatus made hereunder’, and I can see no possible ground for extending these words beyond their natural meaning, ‘apparatus made under this license’, that is in accordance with the patents the subject of the license”: Brownie Wireless Co’s Application (1929) 46 RPC 457 at 477. See also Penn Engineering and Manufacturing Corp’s Patent [1973] RPC 233 at 241 (Graham J).  49 Brownie Wireless Co’s Application (1929) 46 RPC 457 at 478-477.

The later decision in Hamson & Son (London) Ltd’s Application [1958] RPC 88, however, considered evidence of attempts by various parties to enter into a licence agreement. The Comptroller-General concluded that a failure to complete an agreement despite various parties being “willing and anxious”, and some evidence that the failed negotiations were the result of unreasonable terms of payment, was all that was necessary (at 89-90).  50 Brownie Wireless Co’s Application (1929) 46 RPC 457 at 478.

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a licence or licences on reasonable terms” the “establishment or development of commercial or industrial activities in the United Kingdom [wa]s unfairly prejudiced”. The applicant asserted that the proffered royalty was too high at 33\(\frac{1}{3}\)% of the selling price.\(^{52}\) In rejecting this assertion, the Assistant-Comptroller noted that there was no evidence that the resulting selling price would have been prohibitive. Further, even though this royalty might have been too high given that the new licence was to be non-exclusive, the Assistant-Comptroller was “not satisfied that the royalty asked [wa]s so high as to be unreasonable”.\(^{53}\) The applicant also asserted that it was unreasonable to impose a royalty (15% of the selling price) after the patent term expired because they would be at a disadvantage compared to competitors manufacturing without the royalty. The Assistant-Comptroller rejected this assertion, considering that a competitor “would have to spend time and money in tooling up, and, if he had no machine in his possession, in developing a practical embodiment of the machine described in the patent specification”.\(^{54}\)

In short, Robin Electric and Brownie Wireless both take a broader approach to “reasonableness”, considering the range of circumstances and their effect on that broader “market”, and in the case of Brownie Wireless, addressing the likely efficiency of particular terms from the perspective of the patent holder in dealing with that broader “market”. Importantly, Kamborian establishes that the assertions of unreasonableness required actual evidence.

“**Adequate extent**”

In addressing the similarly worded provision in the *Patents Act 1952* (Cth), s 110(1)(a), that “to manufacture to an adequate extent, and supply on reasonable terms, the patented article, or a part of the patented article which is necessary for its efficient working” and “to grant licences on reasonable terms … the demand for the patented article, or the article produced by the patented process, is not reasonably met”, Menzies J, in *Fastening Supplies* said:

> As to the construction of s 110(1)(a), I am of the opinion that the demand for the patented article has not been reasonably met if the Court should be satisfied that, because of its superiority over articles already on the market, potential purchasers would have bought it had it been available. A market for a less efficient article indicates, other things being equal, a market for a more efficient article.\(^{55}\)

Menzies J was satisfied on the evidence that at the time the petition was lodged that the reasonable requirements of the public with respect to the patented article had not been satisfied: “[n]one [of the guns] had been available to the public despite a potential demand which became actual as soon as the articles made in accordance with the invention became available to the market”.\(^{56}\) Further, “despite the imperfections of earlier tools made by Olin Mathieson, more could reasonably have been done by Ramset importing tools made in accordance with the patent to meet the Australian demand therefor”.\(^{57}\) Menzies J also concluded that the production established by Ramset after the application was lodged and before the hearing would meet the reasonable requirements of the public for the patented articles. Although interestingly, the supply does not appear to have been sufficient to saturate the actual market:

> In April 1969 the first products of this manufacture, guns called Ramset Model 4160, were put on the market in Victoria. The whole production to date, ie 600, has been sold. It is anticipated that by 30 June 1970, Ramset would have manufactured and sold 2,000 guns.\(^{58}\)

The UK cases might provide some further insights here. *Hatschek’s Patents* (1909) 26 RPC 228 addressed the *Patents and Designs Act 1907* (UK), 27(2) that provided, in part, for the revocation of a patent that was not being worked in the UK to an “adequate extent”, unless there was a satisfactory

\(^{52}\) See also *Monsanto’s CCP Patent* (1990) FSR 93 at 100.


\(^{54}\) *Kamborian’s Patent* [1961] RPC 403 at 406.

\(^{55}\) *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572 at 575.

\(^{56}\) *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572 at 577.

\(^{57}\) *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572 at 582.

\(^{58}\) *Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp* (1969) 119 CLR 572 at 577.
reason justifying why the patent was not being worked. The patent concerned a process for manufacturing thin imitation stone slabs or tiles (at 247). Parker J commented that the term “adequate” was “elastic” and that its meaning “depend[s] largely on the point of view from which the facts which may have been proved are considered” (at 241). However, he proffered some “observations” (at 242-243):

I do not think the extent to which the article is manufactured, or the process carried on, can be considered adequate if it be less that it would have been, but for the fact that the patentee has exercised the rights conferred by his patent to the hurt of British industry, for example the fact that he has given foreign traders a preference over British traders … It is therefore the conduct of the patentee which is in question. Has he done anything which he ought not to have done, or omitted to do anything which he ought to have done, having regard to his obligations towards the traders of this country [the United Kingdom]? … I agree that the demand and supply in this country are to be considered, though they are not the only facts to be considered upon the question of adequacy. If there was insufficient manufacture here to meet the demand for the home-made article, it might well be that the manufacture might be held to be inadequate, but, even if there was no demand here at all, the manufacture might be inadequate because the rights of the patentee might have been exercised as to preclude the growth of a demand by the imposition of unreasonable prices or unreasonable terms for licences, or simply because the patentee had wholly neglected this country in his efforts to develop foreign trade. Every case must be considered on its own merits and with reference to its own attendant circumstances.

Parker J accepted the evidence that the patent was being worked abroad but not in the UK, and that the British patent had been obtained so as to licence a seller of the foreign manufactured slabs or tiles and not for the purpose of establishing a new industry in the UK. In those circumstances, the UK working was inadequate. Further, as there was no satisfactory reason for this inadequate working (discussed below), the decision of the Comptroller to revoke the patent was upheld (at 247-248).

In Robin Electric Warrington J addressed the phrase “if by reason of the default of the patentee to manufacture an adequate extent … the patented article, or any parts thereof” in the Patents and Designs Act 1907 (UK), s 24(5). Warrington J considered that:

Mere default to supply the patented article or to grant a licence to an individual would not, in my opinion, necessarily amount to default to supply the patented article or to grant licences. There may well be an adequate supply of the patented article to satisfy the requirements of the public, or the patentee may have granted an adequate number of licences on reasonable terms to satisfy the same requirements, and in that case his refusal to supply or grant a licence to a particular person would not be a default within the meaning of the section. It seems to me, therefore, that, in order to establish a case within the section, the petitioner must prove not only default towards himself, but default towards the public generally, or that part of it which is interested in the matter in question.

The petitioner sought a licence to use patents over drawn tungsten wire in their improved two element incandescent light bulbs. The patent holder offered to manufacture the bulbs incorporating the improvement but imposed conditions of minimum list prices on the sale of bulbs. In response the petitioners sought the supply of the tungsten wire. This was declined with an offer to manufacture. In response, the petitioners sought a licence to manufacture the tungsten wire, and with the threat of the petition the wire was offered for sale to the petitioners, the wire was offered at a price that was greater than abroad, and would have more than doubled the purchase price of the bulbs. Warrington J considered that just because the petitioners had been denied the wire was only part of the evidence required, and that they had not shown that “from the public point of view” the supply was inadequate: “it is common ground that licences have been granted” showing that others could supply the broader public.

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60 See also Bremer’s Patents (1909) 26 RPC 114 (Comptroller-General).
61 Another argument might be that the manufacture abroad itself hinders the working in the UK: see, eg, Fabriometer Co Ltd’s Application (1936) 53 RPC 307 at 314 (Comptroller-General).
62 Robin Electric Lamp Co’s Application (1915) 32 RPC 202 at 212 at 213.
Later in Cathro, a compulsory licence was sought for patents for screen grid thermionic valves under the Patents and Designs Act 1919 (UK), s 27(2)(c) alleging an abuse of monopoly that “the demand for the patented article in the United Kingdom is not being met to an adequate extent and on reasonable terms”. The applicant sought the licence only to manufacture in the UK valves that were then being imported from abroad. The patents covered valves for so-called “American-type receiving sets” that could not be used in “British-type receiving sets” because the contact pins did not fit into the sockets, the contacts were different, the heating filaments were different, and some of the electrical characteristics were different. The applicant essentially wanted to manufacture the valves for the “American-type receiving sets” locally and to supply the replacement parts market in the UK and its colonies. The applicant argued, in part, that the demand for the patented article in the UK was not being met to an adequate extent (and on reasonable terms) “because there are not available in this country [the UK] valves of the American type manufactured here under the patent”: “[w]hat is said is that [the demand for the patented article] is not being met upon reasonable terms because a purchaser who desires a valve of the American type but of English manufacture is unable to obtain such a valve”.

The Comptroller-General considered that the actual demand rather than a possible demand was relevant, and rejected the applicant’s contention:

I do not think it can be said that the demand for the patented article is not being met to an adequate extent and on reasonable terms merely because although the main demand for the patented valve by users in this country is being sufficiently met, a subsidiary demand on the part of persons who have bought receiving sets which they must in many or most cases have known to be of American manufacture, or at all events of American type, cannot be met by valves of British manufacture.

Then in Kamborian, in the context of Patents Act 1949 (UK), s 37(2)(b) that “that a demand for the patented article in the United Kingdom is not being met on reasonable terms”, the applicant asserted that the price was too high because of the unreasonable royalty. The Assistant-Comptroller considered that this needed to be assessed from the perspective of “what the customer is prepared to pay”. There was no evidence proffered of customer dissatisfaction, and there was evidence that the amount actually paid (£185) had remained the same even though the cost of the machine had increased (from £557 to £795), and there was evidence of increasing sales. As a consequence, the Assistant-Comptroller concluded that the demand was being met on reasonable terms.

Again, it is the broader “market” that must be supplied to an “adequate extent” by the manufacture of the patented product or patented part of the product and this is to be assessed from the conduct of the patent holder (or their licensee or assignee). Menzies J in Fastening Supplies appears to articulate a test of substitutability, so that adequacy is most probably properly assessed according to whether potential purchasers are able to choose the patented product or patented part of the product in preference to another product. However, the supply does not need to saturate the market, leaving considerable uncertainty as to how much supply is adequate.

“Unfairly prejudiced by conditions”

The phrase “unfairly prejudiced by conditions” has not been addressed in Australia. Unfortunately, this provision is only obliquely addressed in the UK cases. Luxmoore J, in Brownie Wireless, had decided that: “[i]n my view the learned Comptroller was right in his view of the construction to be

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63 Cathro’s Application (1934) 51 RPC 75 at 77-81.
64 Cathro’s Application (1934) 51 RPC 75 at 82.
65 The applicant having asserted that they were proposing to manufacture for the UK and for export to the colonies or dominions, although they did not have an existing arrangement to supply the colonies or dominions: Cathro’s Application (1934) 51 RPC 75 at 82-83.
66 Cathro’s Application (1934) 51 RPC 75 at 82-83.
69 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 575.
70 Brownie Wireless Co’s Application (1929) 46 RPC 457 at 472.
placed on” the related provision, the Patents and Designs Act 1919 (UK), s 27(2)(e), and the Assistant-Comptroller in Fette’s Patent [1961] RPC 396 at 401 did not consider the similar provision in the Patents Act 1949 (UK), s 37(2)(e), having reached a conclusion on other grounds.

However, in Hamson & Son (London) Ltd’s Application [1958] RPC 88, the Comptroller-General dealt, in part, with the Patents Act 1949 (UK), s 37(2)(e) that “by reason of the refusal of the patentee to grant a licence or licences on reasonable terms … the establishment or development of commercial or industrial activities in the United Kingdom is unfairly prejudiced” (at 90). The invention was being worked in France and Germany under licence and the applicants asserted that they could work the invention, and that it was in the public interest that they be allowed to work the invention in the UK. The patentee opposed the application on the basis, in part, that negotiating with the applicants would prejudice current negotiations with another firm better equipped to work the invention in the UK (at 88-89). The applicants and others had tried to enter into negotiations and the evidence suggested, and was accepted by the Comptroller-General, that the patentee’s proposed terms of payment were unreasonable (at 89-90). In deciding to grant a compulsory licence the Comptroller-General had to weigh the prospects of the applicant being able to work the invention. The Comptroller-General concluded (at 90), even though the applicant needed to procure premises and capital:

I feel that unless the applicants are given the opportunity by the grant of a licence it is unlikely that the invention will be commercially worked in the United Kingdom in the foreseeable future.

As a result of the conclusion, the Comptroller-General appears to have concluded that the “unreasonable” terms in the licence were preventing the invention being exercised in the UK, and that this exercise was in the “public interest”. Whether this goes to “unfairly prejudiced” or some other ground is unclear, although other grounds might more comfortably address this conclusion.71 Further, important considerations such as the broader “market” were not considered, whether the UK was being supplied with the patented invention, and so on. In short, the phrase “unfairly prejudiced” might be expected to be used in the same sense within the same provision, and the kinds of consideration applying to the phrase in those other places (such as Robin Electric, Brownie Wireless and Kamborian) do not appear to have been taken into consideration. Put simply, the cases addressing this text are unclear, leaving considerable scope for speculation about the necessary threshold and relevant evidence.

“Not being worked”, “commercial scale” and “capable of being worked”

Perhaps the first limitation to address is that the current Patents Act is limited to the provision that “the patented invention is not being worked”.72 The term “work” is then defined to mean “make or import the product”, “use the method or process” and “make or import” the product of the “method or process”.73 This is significantly narrower than the other essential elements of a patentee’s “exclusive rights” and does not include “hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use … it, or keep it for the purpose of doing any of those things”.74 Importantly, the term “worked” is further limited by the requirement that the working must be on a “commercial scale”. That is, a patent holder making or importing a patent protected product will only be captured by this provision if the making or importing is not “on a commercial scale”.

While there are no Australian decisions directly addressing this provision in the Patents Act, Menzies J in Fastening Supplies considered a similarly worded provision in the Patents Act 1952 (Cth), s 110(1)(c), that “if the patented invention, being an invention capable of being worked in Australia, is not being worked on a commercial scale”. Menzies J found on the evidence that the bolt guns were not being manufactured and sold in Australia at the date of the application, and this appears

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71 See, eg Patents Act 1949 (UK), s 37(2)(a): “that the patented invention, being capable of being commercially worked in the United Kingdom, is not being commercially worked therein or is not being so worked to the fullest extent that is reasonably practicable”.
72 Patents Act 1990 (Cth), s 135(1)(c)
73 Patents Act 1990 (Cth), Sch 1 (“work”).
74 See Patents Act 1990 (Cth), s 13(1) and Sch 1 (“exploit”).
to have been sufficient for Menzies J to conclude that “[t]here is no doubt in my mind that when the petition was lodged ... the reasonable requirements of the public with respect to the patented article had not been satisfied”.

On the facts, it seems likely that the delay in manufacture that was sufficient for Menzies J to conclude that there was a satisfactory reason for failing to work the invention until after the application date also established that the invention was not “capable of being worked in Australia”.

The UK cases provide some further insights. In Levenstein’s Petition [1989] 15 RPC 732 at 732-737, in the context of the Patents, Designs and Trade Marks Act 1883 (IMP), s 22(a) that “the patent is not being worked in the United Kingdom”, a UK company sought and was refused a licence to work patents in the UK for the manufacture of chemical dyes. The petitioners argued that they required the licence to work some of their own patents, that the patents for which they sought licences were only offered on terms that were unacceptable to the petitioners, and that the patents were not being worked by the UK. The Board of Trade ordered a compulsory licence, appearing to accept the argument before the referee that there was no working of the patent in the UK, even though the patent holder was prepared to sell the patent protected product (at 741-742). The uncomplicated question was simply one of evidence: was the patent being worked in the UK? The same meaning has been adopted in later cases, and was also the form of analysis in Fastening Supplies.

The more complex question is the meaning of working on a “commercial scale” and “capable of being worked”.

In Fette, in the context of the Patents Act 1949 (UK), s 37(2)(a) that “that the patented invention, being capable of being commercially worked in the United Kingdom, is not being commercially worked”, the Assistant Comptroller considered an application where the applicants had sought a licence before the patent was granted without success, and then tried again some six years later. The invention was for “devices forming screw threads on work-pieces by a rolling operation”. The reason for the breakdown in negotiations was contested. The applicants then offered a royalty of 5% on the thread rolling die heads and spare parts and 1% on the rolls before applying for a compulsory licence. After the application was lodged the patentee rejected the applicants’ offer saying that the royalty was too low, even though they were keen for the applicants to manufacture their devices, and they sought a minimum licence fee and a royalty term “valid for 10 years after the expiry of the last patent”. The applicants and patentee counter offered but were unable to agree on terms. Importantly, a licence had been granted in the UK and continued in existence even though only one device in one of many possible types and sizes had been manufactured up to the date of the hearing. This was sufficient to establish that the invention was “capable of being commercially worked in the United Kingdom”.

Later, in Enviro-Spray System Inc’s Patent [1986] RPC 147 at 153, in the context of the Patents Act 1977 (UK), s 48(3)(a) that “where the patented invention is capable of being commercially worked in the United Kingdom, that it is not being so worked”, a superintending examiner considered that “commercial working” had “its plain and ordinary meaning” and was satisfied “by the straightforward manufacture of goods for trade”. The superintending examiner, however, accepted that the language of “working on a commercial scale” in the Patents Act 1919 (UK), s 27(2)(a) that was considered in Mckechnie Bros Ltd’s Application (1934) 51 RPC 461 was different and not equivalent, and that in the Patents Act 1977 (UK) “commercial working” might include “research work or work in a laboratory”. As a consequence, the working of the invention on a small scale in the US followed by

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75 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 577.
76 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 579.
77 See, eg, Cathro’s Application (1934) 51 RPC 75 at 85; Fette’s Patent [1961] RPC 396 at 398.
78 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 577.
ceasing that working was sufficient for the superintending examiner to accept that the invention was not being worked in the UK, but was capable of being commercially worked in the UK.

More recently, in Monsanto’s CCP Patent (1990) FSR 93 at 98, in the context of the same Patents Act 1977 (UK) provision, the question was specifically whether the patented invention was capable of being commercially worked. The invention concerned solvents used in making marks on carbonless copy paper. The applicant wanted to supply the patented product and had identified a potential customer. That customer would not agree to consider purchase, however, until the pending infringement proceedings were resolved or a licence had been awarded (at 95). The superintending examiner was uncertain whether these circumstances were sufficient as there was no direct evidence from the potential customer that the invention was capable of being commercially worked in the UK (at 99).

In short, the terms “not being worked”, “commercial scale” and “capable of being worked” require evidence both of the nature of working (in the sense that term has been defined) and the extent of the working. Where there is no working, evidence establishing a patent is “capable of being worked” will be necessary. As Monsanto shows, this may be a difficult threshold to satisfy.

**SECTION 133(2)(A)(II): NO SATISFACTORY REASON FOR FAILING TO EXPLOIT**

The term “satisfactory reason” is not defined in the Patents Act. Menzies J in Fastening Supplies considered the phrase in the Patents Act 1952 (Cth), s 110(1)(c) “if the patented invention … is not being worked in Australia on a commercial scale and no satisfactory reason is given for the non-working” (emphasis added). The accepted facts were that when the petition was lodged the patented explosive bolt gun was not available to the public despite potential demand. In determining whether the reason for not working the invention in Australia was reasonable, Menzies J considered the patent holder’s detailed reasons for the delayed manufacture and sale of the patented tools at the time of the hearing. The reasons included that:

- non-working in Australia “was not due to a lack of concern about the Australian market” or “lack of desire to meet the requirements of that market from its own manufacture in Australia”;
- there were difficulties in designing a tool that could be made economically in Australia;
- there was a reasonable decision to defer manufacture until a suitable tool for the Australian market could be manufactured;
- 21 different patented tools were imported, field tested, and found to be unsatisfactory;
- that local manufacture was “a major manufacturing undertaking not to be entered upon lightly” until a suitable tool had been developed; and
- there had been constant work developing a suitable tool for Australia.83

The accepted evidence also established that the manufacture undertaken after the petition was lodged was “in the process of meeting Australian requirements [with] the capacity to do so” and was “not merely a belated response to the petition for a compulsory licence”.84 However, despite these findings, Menzies J did consider that “despite the imperfections of earlier tools … more could reasonably have been done by … importing tools made in accordance with the patent to meet the Australian demand”.85 Perhaps the decision suggests that at the time the petition was lodged the reasons for failing to work the invention were not satisfactory, and that by the time of the hearing the patent was being “worked on a commercial scale” so that there was no longer a requirement to consider whether there was “no satisfactory reason” for non-working.

Again, the UK cases may provide some insights. Parker J in Hatschek,86 addressed the Patents and Designs Act 1907 (UK), s 27(2) that provided, in part, for the revocation of a patent that was not being worked in the UK to an adequate extent, unless there was a “satisfactory reason” justifying why

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83 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 578-580.
84 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 580.
85 Fastening Supplies Pty Ltd v Olin Mathieson Chemical Corp (1969) 119 CLR 572 at 582.
86 Hatschek’s Patents (1909) 26 RPC 228 at 241.
the patent was not being worked. The patent concerned a process for manufacturing thin imitation stone slabs or tiles. In addressing the broad policy of the provision, Parker J commented that the term “satisfactory” was “elastic” and that its meaning “depend[s] largely on the point of view from which the facts which may have been proved are considered”. In declining to then define the term, Parker J made the “general observations” that:

I do not think any reason can be satisfactory which do not account for the inadequacy of the extent to which the patented article is manufactured or the patented process is carried on in this country by causes operating irrespective of any abuse of the monopoly granted by the patent. The first thing therefore, for the patentee to do is, by full disclosure of the manner in which he has exercised his patent rights, to free himself from all suspicion of having done anything to hamper the industry in the United Kingdom. When once he has satisfied the Comptroller of this, he will have gone a long way towards proving what he has to prove, and even if he cannot prove adequacy, he ought to be able to show satisfactory reasons for inadequacy … It is therefore the conduct of the patentee which is in question.

In the circumstances of the case, it was also argued that compulsory licensing was not only to secure fair play for UK traders but also to give them preference so that they did not have to compete against foreign traders. Parker J rejected this argument saying that if Parliament had intended such protectionist (and anti-free trade) policies, then the legislation would have clearly expressed such a sentiment. As such, the policy of compulsory licensing was to secure fair play between UK and foreign industries. On the facts accepted by Parker J, the patent was being worked abroad but not in the UK, and further, the UK patent had been obtained so as to licence a seller of the foreign manufactured slabs or tiles and not for the purpose of establishing a new industry in the UK. There was no evidence of relative costs of wages, materials, different conditions, and so on, “which points to the economic impossibility of such an industry having grown up in the United Kingdom if no preference had been conferred on foreigners”, and as there was no satisfactory reason (“[i]n my opinion a new industry might have arisen in this country but for the manner in which the patentee has exercised his patent rights”), the decision of the Comptroller to revoke the patent was upheld.

In Cathro,91 in the context of the Patents and Designs Act 1919 (UK), s 27(2)(a) that “if the patented invention (being one capable of being worked in the United Kingdom), is not being worked within the United Kingdom on a commercial scale, and no satisfactory reason can be given for such non-working”, the Comptroller-General addressed what are the “satisfactory reasons”. The invention concerned screen grid thermionic valves, with an efficient construction under the Mitchell patent also falling within the Hull patent (set out above). The patentee admitted that the Mitchell patent was not being worked, and reasoned (1) that the improvements effected by the invention were more suited to American-type valves than British-type valves if they could be applied to British-type valves at all, and (2) that there was no demand in the UK for valves according to the Mitchell patent, the demand being adequately satisfied by the Hull patent. In accepting that these reasons were satisfactory to found the grant of a compulsory licence, the Comptroller-General noted that the purpose of patenting was to encourage invention. In the circumstances, granting a compulsory licence for a minor improvement “which modifications had not been found to be sufficiently important to be utilised in practice” (the Mitchell patent) would unfairly also require a compulsory licence for the originating patent (the Hull patent) for which there were no grounds for granting a compulsory licence.92 The applicant expressly admitted that working the Mitchell patent under a compulsory licence would infringe the Hull patent. As a consequence of the admission, the Comptroller-General decided not to grant the compulsory licence for the Mitchell patent as this would be unfair to the patent holder of the Hull patent.93

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87 See also Brenner’s Patents (1909) 26 RPC 114 (Comptroller-General).
88 Hatschek’s Patents (1909) 26 RPC 228 at 241.
89 Hatschek’s Patents (1909) 26 RPC 228 at 242.
90 Hatschek’s Patents (1909) 26 RPC 228 at 247-248.
91 Cathro’s Application (1934) 51 RPC 75 at 85-86.
92 Cathro’s Application (1934) 51 RPC 75 at 86-88.
93 Cathro’s Application (1934) 51 RPC 75 at 89.
However, in a fresh application, *Cathro’s Application* (1934) 51 RPC 475 at 478-479, the applicant withdrew the admission saying that the Mitchell patent could be worked without infringing the Hull patent, and the Comptroller-General then awarded a compulsory licence (at 482).

In *Intertype Ltd’s Application* (1926) 43 RPC 305 at 308-309, again in the context of the *Patents and Designs Act 1919* (UK), s 27(2)(a), the applicant contended that the patentee had not worked the invention in the UK and would not license the invention at all so that a compulsory licence should be granted. The evidence showed that typographical line-casting machines incorporating the invention were being imported by the applicant from the US and that these machines were found to be infringing the patent. In response to the finding of infringement the applicants sought a compulsory licence (at 306). The Assistant-Comptroller concluded that a refusal to license at all with no UK manufacture will undoubtedly be unsatisfactory (at 309):

> I cannot conceive that, because the patentees, for reasons which seem to them expedient and sufficient, do not see fit to exploit the invention in this country, they have an unquestionable right to decline to permit the manufacture of the patented article on reasonable terms by other persons interested. If this view be correct, it would appear that, in effect, the patentees are maintaining the patent in force mainly for obstructive purposes and it seems to me, therefore, on the evidence available, that the present case is precisely one which the provisions of section 27 of the Acts were intended to meet.

The approach of Parker J in *Hatschek* seems appropriate, so that the term “satisfactory” is “elastic” and that its meaning “depend[s] largely on the point of view from which the facts which may have been proved are considered”.94 Further, as the facts in *Fastening Supplies* showed, there can be very good reasons why inventions are not exploited and they may not be readily apparent until the details of the evidence are considered. However, the threshold of “satisfactory reason” is uncertain, and for a potential applicant, might be very difficult to assess before lodging an application without some knowledge of the patent holders specific circumstances.

**CONCLUSIONS**

There have been regular assertions that compulsory licensing encourages the licensing and working of inventions sooner, with the compulsory licence serving as an effective incentive for patent holders to grant a licence voluntarily and on their own terms.95 The question addressed by this article is what do the words in the *Patents Act*, s 133(2)(a), actually mean, and can they in fact “promote the efficient use of patents and promote competition” and “incentivise” the licensing and working of inventions sooner. As this article demonstrates, the likely meanings of the threshold criteria in the *Patents Act*, s 133(2)(a), are uncertain. While this has been identified as a concern by others,96 the details and scope of the interpretive problems have not been assessed. From the analysis in this article it is apparent that the uncertain meanings impose significant thresholds for evidence (proof), qualifications, discretions, expense and uncertain access to the know-how necessary to actually exploit the invention.97 The conclusion of this analysis must be that the uncertain meanings, evidentiary requirements, and the likely considerable expense with little prospect of gauging the likely success of an application are unlikely to encourage a potential applicant. Rather, these thresholds appear as a

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94 Hatschek’s Patents (1909) 26 RPC 228 at 241.


96 See, eg, IPCRC, n 44, pp 162-163.

97 See IPAC, n 12, p 28.
likely barrier to a potential applicant and undermine any incentive the provision might hold for a patent holder to license and work the invention sooner. The policy question at stake is whether these limitations might be redressed so that compulsory licensing is a real incentive to license and work inventions sooner. Unfortunately, the other limitations imposed by the *Patents Act* reinforce the likely barriers faced by potential applicants and undermine any incentives for the patent holder.

Perhaps the first limitation to address in the current *Patents Act* is that “a person may [only] apply to the Federal Court … for an order requiring the patentee to grant the applicant a licence to work the patented invention” (s 133(1)) (emphasis added). The term “work” is then defined to mean “make or import the product”, “use the method or process” and “make or import” the product of the “method or process”.98 This is significantly narrower than the other essential elements of a patentee’s “exclusive rights”, and importantly, does not include “hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use … it, or keep it for the purpose of doing any of those things”.99 Put another way, a court can only grant a compulsory licence to make or import the patented product (including the product of a process or method) and use the method or process. The usefulness of a compulsory licence is likely to be of very little value without the ability to, at the very least, sell or “otherwise dispose” of the patented product (including the product of a process or method).

The next significant limitation in the current *Patents Act* is that “[a]n order must not be made … that is inconsistent with a treaty between the Commonwealth and a foreign country” (s 136). The most significant of these is likely to be the *Australia-United States Free Trade Agreement* (AUSFTA) ([2005] ATS 1), Art 17.9.7, which provides, in part:

> A Party shall not permit the use[^100] of the subject matter of a patent without the authorisation of the right holder except in the following circumstances:
>
> (a) to remedy a practice determined after judicial or administrative process to be anti-competitive under the Party’s laws relating to prevention of anti-competitive practices[^101] or
>
> (b) in cases of public non-commercial use, or of national emergency, or other circumstances of extreme urgency, provided that …

In this formulation, para (a) is addressed by the “competition test” in s 133(2)(b) of the *Patents Act* and para (b) is addressed by the “Crown use” in ss 163-172 of the *Patents Act*. A plain and literal interpretation of the AUSFTA provision would appear to expressly exclude the operation of s 133(2)(a). The Australian Government has advised, however, that it “does not intend to amend the existing test in the light of the AUSFTA”.102 The interpretive approach preferred by the Australian Government is that the term “anti-competitive practices” addressed in AUSFTA should be interpreted broadly so as to cover the existing compulsory licence provisions under the *Patents Act*, and this will include “the grant of a compulsory licence if, among other conditions, ‘the reasonable requirements of the public’ have not been met”.103 Whether a court would invest the term “anti-competitive practices” with such broad meaning remains to be established.

There is also further uncertainty apparent in the policy intent of a compulsory licensing provision such as s 133(1)(a). In crafting the amendment set out in the *Intellectual Property Laws Amendment Act 2006* (Cth) the Australian Government expressly rejected the narrow focus of competition in a

[^98]: *Patents Act 1990* (Cth), Sch 1 (“work”).
[^99]: See *Patents Act 1990* (Cth), s 13(1) and Sch 1 (“exploit”).
[^100]: The footnote provides: “‘Use’ in this paragraph refers to use other than that allowed under paragraph 3 and Article 30 of the TRIPS Agreement.”
[^101]: The footnote provides: “With respect to sub-paragraph (a), the Parties recognize that a patent does not necessarily confer market power.”
[^103]: Senate Economics Legislation Committee, n 44, p 46.
market advocated by earlier reviews of the provision. The Australian Government expressly recognised that there were other “public interest” justifications for granting compulsory licences. The stated objective of the amendment together with the remaining provisions was:

To ensure that the compulsory licensing provisions provide an appropriate level of access to patented inventions and strike an appropriate balance between the rights of patent owners and the public interest in access to patented inventions.

In this context the mischief that compulsory licensing was identified as addressing was that:

A granted patent is essentially a right to exclude others from using the patented invention. The patentee also has the right to choose not to exploit the invention. However, if their failure to use the invention at all, or to a sufficient extent, is contrary to the public interest then access to the invention can be obtained in certain circumstances.

The existing Patents Act, s 133(2)(a) sets out the “certain circumstances” for restricting the “exclusive rights” of a patent holder (other than the contravention of a competition law). Importantly, this identified mischief accepts that the “public interest” considerations are limited, perhaps encouraging courts to narrowly consider the circumstances when they might consider a compulsory licence appropriate within the bounds of the existing s 133(2)(a). However, as the analysis in this article demonstrates, the uncertain meanings, evidentiary requirements and likely expense with no certainty of success suggest that a potential applicant would have to be very brave to lodge an application. With respect, the incentive effects of compulsory licences to encourage licensing and earlier working of inventions would appear to be a very weak claim. As a consequence, for there to be a real incentive, the provisions need to be revisited by Parliament and recast in meaningful and purposeful text.

104 See IPCRC, n 44, pp 162-163.
106 Explanatory Memorandum, n 12, p 12.
107 Explanatory Memorandum, n 12, p 11; see also IPCRC, n 44, p 162; IPAC, n 12, p 29.
108 This appears to have been grudgingly accepted by the IPCRC despite its focus only on a competition-centered test: IPCRC, n 44, pp 62-163.