

## LIMITATIONS ON THE SCOPE OF A PATENTEE'S EXCLUSIVE RIGHTS IN THE CONTEXT OF THIRD PARTY EXPERIMENTAL USES

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### I INTRODUCTION

A person will infringe a patent if they exercise the exclusive rights of the patentee in relation to the invention without authorisation and without the benefit of an express or implied exemption from infringement. Infringement therefore requires that:

- (a) The 'invention' falls within the scope of the claims of the patentee; and
- (b) The act falls within the scope of the patentee's exclusive rights; and
- (c) The act does not have the benefit of an express or implied exemption to infringement.<sup>1</sup>

Two important reviews<sup>2</sup> examined the existence of and need for an experimental use exemption from infringement. In its final report, the observations of the Australian Law Reform Commission ('ALRC') on the existence of an exemption are inconclusive and offer little guidance as to non-infringing activities. They noted the suggestion by others that 'exploit' is limited to the commercial context, but expressed ambivalence with the accuracy of this observation as 'the words of the statute are not limited in this way'.<sup>3</sup> At the same time they referred without comment to the provisions in the Explanatory Memorandum (discussed below), which suggest the existence of an implied

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1 The *Patents Act 1990* (Cth) contains a limited range of express exemptions from infringement: exploitation of inventions by the Crown (s 163); certain prior uses of the patented invention (s 119); use on board foreign vessels that come into the patent area only temporarily or accidentally (s 118).

2 Australian Law Reform Commission ('ALRC'), *Gene Patenting and Human Health*, Issues Paper No 27 (2003) ('*ALRC Issues Paper*'); Advisory Council on Intellectual Property (ACIP), *Patents and Experimental Use: Options Paper* (2004) ('*Options Paper*'); ACIP, *Patents and Experimental Use* (2005) ('*ACIP Report*').

3 ALRC, *Genes and Ingenuity: Gene Patenting and Human Health*, Report No 99 (2004) [13.5]–[13.6] ('*ALRC Report*').

limitation. On balance, it seems that the ALRC supports the view that some degree of experimental use of an invention would not infringe the patent holder's rights.<sup>4</sup>

The Advisory Council on Intellectual Property ('ACIP'), on the other hand, sought the advice of the Australian Government Solicitor, who persuasively argued for the existence of some exemption from infringement.

We think it is likely that a court would find that, in some circumstances, use of a patented invention for experimental or research purposes would not constitute an infringement of a patent registered under the Act. ... In the absence of any judicial consideration of the matter, it is difficult to predict how broadly or narrowly an Australian court would interpret the scope of an experimental or research 'exception'. However, it seems likely that the question of whether any given use can be regarded as having been undertaken for commercial advantage would be central to the formulation of any relevant test.<sup>5</sup>

Nevertheless, both the *Options Paper* and the final report *Patents and Experimental Use*, which was published in October 2005, went on to expose 'considerable uncertainty and difference of opinion about the current state of Australian law on an experimental use exemption.'<sup>6</sup> The *Options Paper* cited a passage from the Law Council of Australia's submission as having 'summed up the current situation':

There is no court decision in Australia which establishes that there is an experimental use exception as part of patent law. Absent of such a decision there are reasonable arguments both ways as to whether such an exception is part of the common law applicable in Australia. That position is unsatisfactory whether considered from the position of patentees or third parties.<sup>7</sup>

The ACIP conclusion in the *Options Paper* was:

In weighing up these opinions and submissions, ACIP considers that it is currently uncertain which experimental uses of a patented invention might constitute infringement of the patent under existing Australian law. ACIP believes that some uses probably don't constitute infringement of a patent under current law, but this may depend heavily on the interpretation of the law by the courts in each case.<sup>8</sup>

In its final report, the ACIP reiterated the above conclusions, but appears to impliedly accept that some exemption from infringement may exist; that it would be dependent upon the facts in the case rather than upon the interpretation of the law. The *ACIP Report* considered that:

patent rights should not extend to acts of experimentation that aim to increase society's body of knowledge and which do not unreasonably devalue patents. This is not clearly the case under current Australian law. ACIP believes that some uses of a patented invention would probably be allowed by the courts, but this would depend heavily on the circumstances in each case.<sup>9</sup>

Therefore, the ALRC is ambivalent throughout Chapter 13 concerning the existence of an exemption at common law, but expresses a final view that

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4 Ibid [13.78].

5 ACIP, *ACIP Report*, above n 2, 29.

6 ACIP, *Options Paper*, above n 2, 34; ACIP, *ACIP Report*, above n 2, 34.

7 ACIP, *Options Paper*, above n 2, 35.

8 Ibid.

9 ACIP, *ACIP Report*, above n 2, [8.3].

supports its existence. ACIP seems to accept that one may exist, despite the considerable difference of opinion among the submissions to the review. However, neither report is clear on whether this would operate (if it existed) as a defence to infringement or as a limitation on the scope of the patentee's exclusive rights.

As to the need for an experimental use exemption, both bodies conclude that some form of exemption is required. The ALRC makes it clear that any statutory amendment should be framed as an exemption, as opposed to a defence, so that the experimental use is considered a non-infringing act.<sup>10</sup> ACIP made a number of recommendations including the following:

Recommendation 1: The Patents Act be amended to establish the following provision:

The rights of a patentee are not infringed by acts done for experimental purposes relating to the subject matter of the invention that do not unreasonably conflict with the normal exploitation of a patent. Acts done for experimental purposes relating to the subject matter of the invention include:

- determining how the invention works;
- determining the scope of the invention;
- determining the validity of the claims;
- seeking an improvement to the invention.

Recommendation 2: Appropriate guidance be provided in the Explanatory Memorandum to the above amendment, explaining that the purpose of the exemption is to encourage the further development of patented fields of technology without unfairly devaluing patent rights or breaching the TRIPS Agreement, and that the exemption is not intended to derogate from any other exemption from infringement that exists under the Act.

The *ALRC Report* also concluded that any express provision must not derogate from any experimentation that may otherwise be permitted under the Act.<sup>11</sup> The albeit ambiguous intention seems to be to retain any common law exemption from infringement that may exist.

The ACIP recommendation frames the provision in terms of non-infringing acts. Therefore, this does not seem to operate as a defence to otherwise infringing acts, but implies that these listed acts would not otherwise infringe the exclusive rights of the patent. If the common law exempts from infringement certain other acts done for experimental purposes, it is likely that courts would turn to the common law for guidance on the scope of this provision. To this extent, the flexibility appears to preserve impliedly any common law exemption that exists at present for experimental use of an invention to the extent that it would not unreasonably conflict with the normal exploitation of a patent. The proposed provision may therefore not affect the scope of the exclusive rights of the patentee. The recommendation makes it clear that there is to be no derogation from 'any other exemption from infringement that exists under the Act'. This would refer to exemptions that arise under specific sections such as section 118. It may also include any common law exemption to the extent to which it arises

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<sup>10</sup> ALRC, *ALRC Report*, above n 3, [13.80].

<sup>11</sup> ACIP, *Options Paper*, above n 2, 9; ALRC, *ALRC Report*, ch 13, Recommendation 13.1(c); ACIP, *ACIP Report*, above n 2, Recommendation 2.

by reason of the construction of particular provisions and terms such as ‘exploit’. However, this is not explicit in the recommendation.

It is the aim of this article to persuade readers as to the existence of an experimental use exemption to infringement that operates by way of limitation on the scope of the exclusive rights of the patentee. Although the discussion provides some minimum guidance as to its likely scope, this is not the focus of the article.<sup>12</sup> Instead, its focus is upon establishing that the term ‘exploit’ in the *Patents Act 1990* (Cth) (*‘1990 Act’*) is subject to implied limitations that allow researchers some leeway in their ability to use patented inventions without the need for the patentee’s permission. The article critically assesses whether acts may fall within the scope of the claim or claims of the patent, but outside the scope of the patentee’s exclusive rights.<sup>13</sup> It does so within the following framework: the rationales and policy that underlie the *1990 Act*; the judicial interpretation of the exclusive rights of the patentee under both the *1990 Act* and earlier legislation;<sup>14</sup> and specific provisions in the *1990 Act* where use for experimental purposes is mentioned, namely access to patented micro-organisms, prior secret use and prior public user. The article does not ask whether there is any implied defence from infringement for certain uses of an invention<sup>15</sup> because that inquiry presupposes that such uses would otherwise infringe the patent.

## II POLICY JUSTIFICATIONS TO LIMIT THE SCOPE OF THE EXCLUSIVE RIGHTS OF THE PATENTEE

### A Objectives for Patent Protection

The objectives for patent protection have a clear commercial and trading focus that supports some limitation on the scope of the exclusive rights of a patentee. In the decision of the Federal Court in *Grant v Commissioner of Patents*,<sup>16</sup> Branson

12 For commentary on the exemption see all references in the *ACIP Report*, including: Matthew Rimmer, ‘The freedom to tinker: patent law and experimental use’ (2005) 15(2) *Expert Opinion on Therapeutic Patents* 187.

13 This difference is apparent in the judgment of Eichelbaum J in *Monsanto Co v Stauffer Chemical Co (NZ) Ltd* [1991] 2 NZLR 560; [1984] FSR 559, 564. As pointed out by Lord Diplock in *Beecham Group Ltd v Bristol Laboratories Ltd* [1978] RPC 153 at 198, the ‘limits of the monopoly have to be spelled out from the archaic wording of the grant of the letters patent, under which the patentee has “the full power, sole privilege and authority” to “make, use exercise and vend” the invention within New Zealand, and to “have and enjoy the whole profit and advantage from time to time accruing by reason of the said invention during the . . . term.” Here we are concerned with the patentee’s privilege and authority to use the invention, and the right to enjoy the whole advantage accruing during the term of the patent.’

14 The article considers only cases that deal with the scope of the exclusive rights themselves. It does not consider cases that found no infringement because the act did not fall within the scope of the invention. For example, *Higgs v Goodwin* (1858) EL BL & EL 527; 120 ER 606 has been cited as an example of the need for an infringing use to have a commercial aspect; but, it is more likely that the use fell outside the scope of the patent.

15 This is an issue that was subject to two recent inquiries: ALRC, *ALRC Issues Paper*, above n 2; ACIP, *Options Paper*, above n 2. The *Patents Act 1977* (UK) includes a provision that complies with the EPC and provides a defence to infringement for certain experimental and private uses of the invention. While it is considered that this provision codifies the past law, this article argues that the past law provided limits on the scope of the patentee’s rights as opposed to a defence to infringement.

16 (2005) AIPC 92-126.

J reiterated the principle that the context for limiting monopolies was that of trade, the common law having suspicions of such monopolies.<sup>17</sup> As Branson J explained:

Section 6 of the Statute of Monopolies was intended to allow the grant of monopolies limited in time where the public benefit derived from the grant of the monopoly might be expected to outweigh the public cost of the resultant interference with free trade. The same principle underlies modern legislation authorising the grant of patents.<sup>18</sup>

The legislation permits the patentee to exercise exclusive rights that allow him or her to interfere with free trade of others for a limited term. The integral relationship between the grant of a patent to provide benefits for the patentee in the area of trade and commerce is implicit in the terms of former patent grants, such as the following:

We ... do by these presents ... give and grant unto the said patentee our especial licence, full power, sole privilege, and authority, that the said patentee ... and no others, may ... make, use, exercise, and vend the said invention ... *and that the said patentee shall have and enjoy the whole profit and advantage from time to time accruing by reason of the said invention.*<sup>19</sup>

This broad language does not necessarily extend rights to the private and non-commercial sphere of activity. A patent grants no positive rights to the patentee. In *National Phonograph Co of Australia Ltd v Menck*,<sup>20</sup> the Privy Council observed of section 62 of the *Patents Act 1903* (Cth)<sup>21</sup> that it referred to 'the grant of the right as a sole right, that is to say, put negatively, with a power to exclude all others from the right of production, etc, of the patented article'.<sup>22</sup>

The High Court has confirmed in *Grain Pool of Western Australia v Commonwealth of Australia* that it is a monopoly identified in this way with which our patent law is concerned, and not with the conferral of 'positive authority'.<sup>23</sup>

Therefore, it is a mistake to analyse the rights of the patentee to exclude others as if they are absolute. The monopoly power was granted to enhance trade and

17 'At common law every member of the community is entitled to carry on any trade or business he chooses and in such manner as he thinks most desirable in his own interests, and inasmuch as every right connotes an obligation no one can lawfully interfere with another in the free exercise of his trade or business unless there exist some just cause or excuse for such interference.'; *Attorney-General of the Commonwealth of Australia v The Adelaide Steamship Company Limited* [1913] AC 781, 793.

18 *Grant v Commissioner of Patents* (2005) AIPC 92-126, [13].

19 See for example *Patents Rules 1920* (UK) sch 3, Form A; *Patents Rules 1949* (UK), sch 3, Form A. These words appeared originally in section 6 of the *Statute of Monopolies 1623* 21 Jac 1, c 3 (emphasis added).

20 (1911) 12 CLR 15, 22.

21 'The effect of a patent shall be to grant to the patentee full power, sole privilege and authority, by himself, his agents, and licensees during the term of the patent to make, use, exercise, and vend the invention within the Commonwealth in such manner as to him seems meet, so that he shall have and enjoy the whole profit and advantage accruing by reason of the invention during the term of the patent.'; *Patents Act 1903* (Cth) s 62.

22 See also *Steer v Rogers* [1893] AC 232, 235 (Lord Herschell LC): 'The truth is that letters patent do not give the patentee any right to use the invention – they do not confer upon him a right to manufacture according to his invention. That is a right which he would have equally effectually if there were no letters patent at all; only in that case all the world would equally have the right. What the letters patent confer is the right to exclude others from manufacturing in a particular way, and using a particular invention.'

23 *Grain Pool of Western Australia v Commonwealth of Australia* (2000) 202 CLR 479, [83]–[85].

commerce and to overcome common law restraints. Hence, it is more likely that the rights of exclusion for the patentee are limited by reference to whether the activities interfere with the patentee's entitlement in trade and commerce to 'enjoy the whole profit and advantage from time to time accruing by reason of the said invention'. Justice Eichelbaum identified the commercial nature of this advantage in the New Zealand High Court when he construed the concept of deriving advantage to mean 'a concept of advantage in a commercial sense'.<sup>24</sup> It is also implicit in the requirement that they be 'acts injurious to the patentee'.<sup>25</sup>

The Intellectual Property and Competition Review Committee ('IPCRC') also impliedly endorses the inherent commercial limitations in the scope of the exclusive rights in its *Review of Intellectual Property Legislation Under the Competition Principles Agreement* (2000).

This appears in its discussion of the problems that patents attempt to address, the principal one being identified as the threat of free riding on the investment of intellectual effort.<sup>26</sup> They point out the difference between 'free-riding' and permissible competition and business rivalry in the following passage:

However, harm to competition should not, and cannot, be inferred from the mere existence of an exclusive right, such as those conferred by the intellectual property laws. Incumbent firms whose intellectual property benefits from protection may be subject to rivalry from numerous sources, including from other firms supplying differentiated but substitutable products. Perhaps more importantly, they may also be subject to the threat of their product being superseded by technologically superior versions. The very protection an incumbent firm enjoys may provide the incentive for its rivals to invest in developing these alternatives so that the intellectual property protection, rather than undermining contestability, stimulates and channels it in directions that are usually socially beneficial.<sup>27</sup>

The type of rivalry to which the above passage refers may be unable to operate effectively if a firm cannot use a patented invention for any purpose without the permission of the patentee. For example, it may be necessary to conduct experiments on a patented invention in order to identify the scope of 'differentiated and substitutable products' that will not infringe the patent. The IPCRC recognised that there are genuine grounds for concern when rights are used to slow the process of innovation the intellectual property system is intended to foster.<sup>28</sup> If the exclusive rights are unlimited in scope, the patentee could misuse his or her monopoly by suppressing experimentation of all kinds.

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24 *Monsanto Co v Stauffer Chemical Co (NZ) Ltd* [1984] FSR 559, 566. See also: *Smith Kline & French Laboratories Ltd v Attorney-General (NZ)* (1991) 22 IPR 143, 145 (Cooke P), 146 (Hardie Boys J); and *Pfizer Corporation v Ministry of Health* [1965] RPC 261, 320 (Lord Wilberforce).

25 *Minter v Williams* (1835) 4 AD & E 250, 256; 31 ER 781, 783.

26 'Unless kept secret, inventions and ideas can often be cheaply copied or imitated by competitors. Without patent protection it would be impossible to prevent free riding by persons who did not contribute to the original investment. This makes it impossible for the investor to recoup the cost of the investment required to secure the advance. Market incentives for investment in invention would consequently be deficient': IPCRC, Parliament of Australia, *Review of Intellectual Property Legislation Under the Competition Principles Agreement* (2002) 136 ('IPRC Review').

27 Ibid 25.

28 Ibid 26.

## B The Purpose or Objective Underlying the *Patents Act 1990* (Cth)

The above discussion suggests that the objectives of patent protection limit the scope of the exclusive rights of the patentee in some way to a commercial and trading context. There is no reason to believe that the *1990 Act* effects any change in this regard. The objectives that underlie the *1990 Act* continue to support that limitation. Although there is no express statement of purpose in the *1990 Act*, the objective is evident from the second reading speeches<sup>29</sup> that accompanied the presentation of the Patents Bill 1989 (Cth) ('1989 Bill') and the Patents Bill 1990 (Cth) ('1990 Bill') in the House of Representatives and its Explanatory Memorandum.<sup>30</sup> They accept the following policy approach as expressed by the Industrial Property Advisory Committee's ('IPAC'):

The policy approach to review and change should seek to optimise the net benefits arising from the operation of the patent system *in the national interest* to the extent possible consistent with international conventions, having regard to the particular circumstances of the Australian economy. We should seek to modify the Australian patent laws, adjusting the length, strength and breadth of patent rights *so as to maximise the social benefits and to minimise the social costs to Australians*.

More specifically, this implies seeking:

to gain increased benefits for Australians by fostering indigenous innovation, and utilising the international patent system in developing export markets to improve Australia's international competitive position;

to reduce unnecessary social costs including those resulting from undesirable anti-competitive conduct involving patents; and

to improve the efficiency of the administration of the patent system with consequent reduction of direct costs.<sup>31</sup>

This policy highlights the principle that monopolies are granted to provide benefits in a commercial sense. As Mr Crean stated:

The essence of the patent system is to encourage entrepreneurs to develop and commercialise new technology. Since a patent confers a limited monopoly over the use of the patented technology, the patent owner has the opportunity to make a profit from it, gaining a return on investment in innovation. The international character of the patent system makes patents a useful tool in penetrating export markets.<sup>32</sup>

The policy also highlights the fundamental requirement in patent law to balance interests. Balancing necessarily involves some limitations on rights and this is evident from the statements 'seek to optimise the net benefits arising from the

29 Second Reading Speech, Patents Bill 1989 (Cth), House of Representatives, 1 June 1989 (Barry Jones, Minister for Science, Customs and Small Business) 3479; Second Reading Speech, Patents Bill 1990 (Cth), House of Representatives, 10 October 1990 (Simon Crean, Minister for Science and Technology) 2565.

30 Simon Crean accepted this in the second reading speech for the Patents Bill 1990 (Cth), *ibid*, 2566. In his speech, the Hon Barry Jones repeated and accepted the policy expressed by IPAC: at 3479. The Bill was not debated before the dissolution of Parliament prior to the March 1990 election. The Patents Bill 1990 (Cth) was a 'reincarnation' of that earlier 1989 Patents Bill (Cth); the title '1990 Bill' refers to both.

31 IPAC, *Patents, Innovation and Competition in Australia*, Report to the Hon Barry O Jones MP, Minister for Science and Technology, 29 August 1984, 19 [2.2] (emphasis added). The Government response can be found in a statement by Barry Jones, Minister for Science (1986) 56(47) *The Australian Official Journal of Patents, Trade Marks and Designs* 1462.

32 Second Reading Speech, 1990 Bill, above n 29, 2565.

operation of the patent system *in the national interest*’ and ‘maximise the social benefits and to minimise the social costs to Australians.’ Further support for limitation on the scope of the exclusive rights of the patentee comes from the Explanatory Memorandum that accompanied the 1990 Bill.

### C The Intended Limitation of the Exclusive Rights of the Patentee under the *Patents Act 1990* (Cth)

Section 69 of the *Patents Act 1952* (Cth)<sup>33</sup> (the ‘1952 Act’) defined the scope of the monopoly and the acts that comprise the exclusive rights of a patentee as the following:

Subject to this Act, the effect of a patent is to grant to the patentee the exclusive right, by himself, his agents and licensees, during the term of the patent, *to make, use, exercise and vend* the invention in such manner as he thinks fit, so that he *shall have and enjoy the whole profit and advantage accruing by reason of the invention* during the term of the patent (emphasis added).

The *1990 Act* does not continue this terminology. Instead, the patentee has the exclusive right ‘to exploit the invention and to authorise another person to exploit the invention’.<sup>34</sup> The term ‘exploit’ in relation to an invention is defined in Schedule 1 of the *1990 Act* to include:

where the invention is a product—make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things; or

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.

The *1990 Act* contains no express limitation on the scope of the rights and omits the words ‘so that he shall have and enjoy the whole profit and advantage accruing by reason of the invention during the term of the patent.’ Unless care is taken to construe the provisions in accordance with principles of statutory interpretation, one can gain the false impression from these unqualified words of limitless exclusive rights for the patentee.

The two relevant principles of statutory interpretation that we can use to construe these provisions are set out in sections 15AA and 15AB of the *Acts Interpretation Act 1901* (Cth). First, the interpretation of legislation in Australia requires that:

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33 The language was similar to that in UK patent grants under the *Patents Act 1949* (UK). See also Simon Thorley, Richard Miller, Guy Burkill and Colin Birss, *Terrell on the Law of Patents* (15<sup>th</sup> ed, 2000) [1.04].

34 *Patents Act 1990* (Cth) s 13.

a construction that would promote the purpose or object underlying the Act (whether that purpose or object is expressly stated in the Act or not) shall be preferred to a construction that would not promote that purpose or object.<sup>35</sup>

The preceding discussion argues that the purpose or object of the *1990 Act* supports some limit on the scope of the exclusive rights of the patentee.

Secondly, it is possible to consider other materials<sup>36</sup> for guidance on the intended meaning of provisions that are ambiguous or obscure, such as the second reading speeches<sup>37</sup> and the Explanatory Memorandum.<sup>38</sup> Ambiguity arises in the meaning of these provisions because the absence of express limitations on the exclusive rights is inconsistent with the purpose of the Act. If we refer to the second reading speech<sup>39</sup> and the Explanatory Memorandum for guidance, we find no suggestion that a patentee should have absolute and unlimited rights to exploit an invention. Nor is there any suggestion that the Act would curtail any former limitations, either express or implied. The key issue for the new provisions was simplification of language:

Archaic words with hidden meanings are found even in the most central provisions in the present Act, which set out what rights are given by a patent. [see section 69, above]

One will need expensive legal advice to find out what is meant by 'exercising' an invention. Compare this with subclause 13 (1) in the Bill:

Subject to this Act, a patent gives the patentee the exclusive rights, during the term of the patent, to exploit the invention and to authorise another person to exploit the invention.

The word 'exploit' here bears a sensible, usual meaning. There are, of course, some inherent complexities, and the definition of 'exploit' in the dictionary attempts to clear some of those up.<sup>40</sup>

The explanatory memorandum to the 1990 Bill explained further that '[t]his definition [of exploit in the schedule], when read with clause 13, avoids some obscure language in the present Act setting out a patentee's rights'.<sup>41</sup>

As to the potential scope of the term 'exploit', the combination of the Explanatory Memorandum and the second reading speeches displays an intention to codify the existing law, and retain any existing limitations that had developed through case law. The Explanatory Memorandum continues:

35 *Acts Interpretation Act 1901* (Cth) s 15AA. The effect of this section is to override the common laws' literal and purposive approaches to interpretation. See also Dennis Pearce and Robert Geddes, *Statutory Interpretation in Australia* (5<sup>th</sup> ed, 2001) [2.19]; and *Mills v Meeking* (1990) 91 ALR 16, 30–31, (Dawson J).

36 *Acts Interpretation Act 1901* (Cth) s 15AB(1)(b).

37 *Acts Interpretation Act 1901* (Cth) s 15AB(2)(f).

38 *Acts Interpretation Act 1901* (Cth) s 15AB(2)(e).

39 This refers to that of Simon Crean (1990 Bill) and Barry Jones (1989 Bill).

40 Barry Jones (Minister for Science, Customs and Small Business, ALP, Government), House of Representatives Debates, 1 June 1989, House of Representatives, 3482. Simon Crean endorsed this objective; Simon Crean, (Minister for Science and Technology), 10<sup>th</sup> October 1990 House of Representatives Debates, 2566.

41 Explanatory Memorandum, 1990 Bill, [23].

While the definition makes it clear that certain acts are capable of being held to infringe a patentee's rights, it does not mean that a person who performs one of those acts will always be held to infringe.<sup>42</sup>

It then highlighted two specific areas where limitations on the scope of the exclusive rights of the patentee were to continue under the new legislation. There is no suggestion that these were the only limitations to survive the repeal of the earlier legislation. The first related to subsequent dealings with a patented product after its first sale.<sup>43</sup> The second related to experimental uses of an invention, namely:

In addition, it is not intended that clause 13 (see also Chapter 11 relating to infringement) modify the present law relating to certain acts which have been held not to constitute infringement – for example, use of an invention for certain experimental or trial purposes.<sup>44</sup>

This statement, if read literally, assumes that use of an invention for certain experimental or trial purposes had been held not to infringe the exclusive rights of the patentee. As the discussion below demonstrates, this is not accurate. There is certainly obiter dicta to that effect in UK and NZ decisions,<sup>45</sup> but no decision had applied the exemption. Technically, therefore, there was no 'law', but merely obiter that could guide judges in their application of law to new circumstances. The express reference to experimental use displays a clear intention not to modify or prevent the development of the law in this area, and not to restrict judges in their consideration of those earlier cases in their interpretation of the term 'exploit'.<sup>46</sup>

Therefore, the intention was to simplify the language used to define the exclusive rights of the patentee. It was not to restrict those rights in any way. Further, it was not to remove any limitations that the previous law recognised either as binding precedent or by way of policy. Judicial commentary on experimental use exemption from infringement was intended to survive the *1990 Act* for the purposes of defining the scope of the exclusive rights of the patentee.

As we see below, judicial commentary arose in the broader context of the meaning of the exclusive right of the patentee to 'use' the invention and can continue to inform the meaning of 'use' under the definition of 'exploit'. The clearly expressed intention that the policy underlying the legislation supports some limitation on the scope of the word 'use' is the critical factor. The absence

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42 Ibid [24].

43 This was consistent with the IPAC recommendation 10 that was accepted by the Government in its response '[t]hat no change be made to the existing Australian law concerning infringement by importation and exhaustion of rights': Report of the Industrial Property Advisory Committee, above n 31, 35.

44 Explanatory Memorandum, 1990 Bill, [25].

45 *Frearson v Loe* (1878) 9 Ch D 48, 66–67.

46 It is likely, in any event, that the current view at that time was that an exemption or defence from infringement existed under Australian patent law, so that the phraseology in paragraph 25 above merely reflected that view. See also KE Shelley, *Terrell and Shelley on the Law of Patents* (10<sup>th</sup> ed, 1961) 140; Guy Aldous, Douglas Falconer and William Aldous, *Terrell on the Law of Patents* (11<sup>th</sup> ed, 1965) [362]; T Terrell, C Terrell and DH Corsellis, *The Law and Practice relating to Letters Patent for Inventions* (7<sup>th</sup> ed, 1927), 164; TA Blanco White, *Patents for Inventions and the Protection of Industrial Designs* (4<sup>th</sup> ed, 1974) 3-216; Staniforth Ricketson, *The Law of Intellectual Property* (1984) [50.21], [50.22], [50.24]; James Lahore, James Dwyer and Ann Dufty, *Patents, Trade Marks & Related Rights* (2001) [18.340].

of any actual decision in which the exemption has been applied does not mean that the expressions of policy in earlier decisions are to be ignored. What is important is that the past judicial comment on the range of activities that fall outside the meaning of the term 'use' can continue to inform its scope as new factual circumstances arise for decision. This would have happened if the *1952 Act* had not been repealed. The explanatory memorandum and the second reading speeches show that there was no intention for the new Act to interfere with this process.<sup>47</sup> Such an interpretation is consistent both with the broad rationales for patent protection and with the policy underlying the legislation.

### III LIMITED SCOPE FOR THE EXCLUSIVE RIGHTS: EXEMPTION FOR EXPERIMENTAL USE IN CONTEXT OF INFRINGEMENT BEFORE 1990

Part I considered the support for limitations on exclusive rights of the patentee that comes from the policy and rationales for the *1990 Act*. This Part considers briefly those court decisions<sup>48</sup> that discussed the nature of the acts that would not constitute infringement if performed for certain experimental or trial purposes. Although those comments are obiter, they help to flesh out the nature of any exemption from infringement that Parliament envisaged in paragraph 25 of the Explanatory Memorandum would continue under the *1990 Act*.

It is necessary first to explain briefly why UK decisions under the *Patents Act 1977* (UK) are not relevant to this discussion. This Act represented a turning point in UK patent law as it moved to comply with the Strasbourg and European Patent Conventions. One such change was the addition of a statutory experimental use defence to infringement, the terms of which are contained in section 60(5) as follows:

An act which, apart from this subsection, would constitute an infringement of a patent for an invention shall not do so if:

- (a) it is done privately and for purposes which are not commercial; or
- (b) it is done for experimental purposes relating to the subject-matter of the invention.

The sub-section exempts from infringement otherwise infringing acts. Hence, it accepts that, but for this sub-section, a person can perform acts privately and for non-commercial purposes or experimental purposes but still fall within the scope of the patentee's exclusive rights. Therefore, acts only fall outside the exclusive rights of the patentee because the person does not perform the acts in relation to the invention that the claims of the patent specification define. It is clear that the current UK legislation adopts the approach that the listed acts set out in section 60(5) would infringe the patent in the absence of the section. These

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47 This is to be distinguished from the position in the UK, where the Court of Appeal in *Monsanto Co v Stauffer Chemical Co* [1985] RPC 515, 538 (Dillon LJ with whom Sir Denys Buckley and Watkins LJ agreed) treated the earlier English precedents as irrelevant to a section that 'was enacted to bring UK patent law into line with the corresponding provisions of the Community Patent Convention'.

48 My thanks to David Lindsay for his assistance in tracking down the various relevant decisions.

defences to infringement conform to the European Patent Convention and do not codify the law that existed under the previous legislation. Therefore, cases that consider the meaning of these provisions are not helpful in our search to identify the implied limitations on a patentee's exclusive rights under the *1990 Act*. It is the law before these changes that interests us.

There was no express exception to infringement in UK patent laws before this change.<sup>49</sup> Instead, UK commentators generally assumed that certain experimentations on an invention might not infringe a patent. This assumption was based on the obiter dicta of Jessel MR in *Frearson v Loe*, which went as follows:

no doubt if a man makes things merely by way of *bona fide* experiment, and not with the intention of selling and making use of the thing so made for the purpose of which a patent has been granted, but with the view of improving upon the invention the subject of the patent, or with the view of seeing whether an improvement can be made or not, that is not an invasion of the exclusive rights granted by the patent.<sup>50</sup>

Limitations for non-commercial uses were also assumed, as Blanco White commented: '[i]t is arguable that mere domestic use, not depriving the patentee of some commercial benefit, is not infringement.'<sup>51</sup>

Master of the Rolls Jessel seems to have been undecided as to the effect of experiments that fell within his description. Did he envisage that the acts were outside the scope of the monopoly and hence not infringing? Or, did he consider there to be some defence for otherwise infringing acts? It seems that he preferred the first proposal:

But if there be neither using nor vending of the invention for profit, the mere making for the purpose of experiment and not for a fraudulent purpose, *ought not to be considered within the meaning of the prohibition*.<sup>52</sup>

This statement endorses the view that the exclusive rights granted by a patent are limited to uses of the invention for commercial and trade purposes. Although he retained his options and qualified this statement with the words '*and if it were, it is certainly not the subject for an injunction*', his preference was to exclude experimental use of this nature from the scope of the exclusive rights of the patentee. In other words, there would be no need for an express exclusion from infringement because the patentee's exclusive rights did not extend to the performance of these acts.

A variety of later decisions that refer to this exemption are consistent with the view that patents do not grant exclusive rights over uses of the invention that are not for commercial profit or advantage. They support a view that the prohibition

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49 The relevant legislation under which litigation arose in which the issue was mentioned is: *Patent Law Amendment Act 1852* 15 & 16 Vict, c 83; *Patents Designs and Trade Marks Act 1883*, 46 & 47 Vict, c 57; *Patents & Designs Act 1907*, 7 Edw 7, c 29 as amended by *The Patents & Designs Act 1919*, 9 & 10 Geo 5, c 80; *Patents and Designs Act 1932*, 22 & 23 Geo 5, c 32 and *Patents and Designs Act 1949*, 12, 13 & 14 Geo 6, c 87.

50 (1878) 9 Ch D 48, 66–67.

51 Blanco White above n 39, 3–204. See also Sam Ricketson above n 47, [50.22], fn 49 where he suggests that such a limitation is implicit in the wording of s 69 of the *Patents Act 1952* (Cth).

52 *Frearson v Loe* (1878) 9 Ch D 48, 67 (emphasis added).

of non-injurious<sup>53</sup> experiments would impose an unreasonable restraint on the public who should be entitled to test that the invention does what it says.

Although these early decisions do not apply any exemption from infringement on the facts before them, they provide some insight into the limitations that apply to the exercise of the patentee's exclusive rights from the inherent nature of a patent. This inherent nature is common across jurisdictions. Some of these limitations include the following:

- The performance of acts without view to profit, but with the view of improving upon the invention the subject of the patent, or with the view of seeing whether an improvement can be made or not.<sup>54</sup>
- An experiment for the purpose of ascertaining the proportions or properties of the invention.<sup>55</sup>
- Experiments for testing an invention and inspecting the nature of the products it produces with no intention to sell the machine or the products.<sup>56</sup>
- Use in a field trial for the purpose of obtaining regulatory approvals, so that the product may be marketed commercially, is not an experimental use.<sup>57</sup>

There is some suggestion that an educational use of an invention will infringe. However, the authority that is cited for this view does not consider this possibility and should be treated with caution. In *United Telephone Co v Sharples*,<sup>58</sup> Kay J commented by way of obiter that the use of an invention for instruction of young persons who are admitted into the business to learn the business would be an infringing use. The posited uses were 'to let them use, to let them experiment with, to let them, if they please, pull in pieces'. However, the facts of the case involved a business in which the defendant was using a less expensive infringing product to instruct pupils in the business for the purpose of saving the expense of using the patented telephone. It was the purchase of the infringing telephone that was in issue. Although the defendant raised the way in which it was used within the business as a defence, Kay J did not believe that the defendants used it in this instructional way. Therefore, any obiter as to instructional use was inevitably coloured by the particular circumstances of the case. The defendants had purchased infringing products for whatever purpose they proposed within their business. They deprived the patentee of the purchase price of the patented telephone.

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53 *Minter v Williams* (1835) 4 AD & E 250, 256 (Coleridge J).

54 *Frearson v Loe* (1878) 9 Ch D 48. See also Bristowe VC in *Proctor v. Bayley Son* (1888) 6 RPC 106, 109 who regarded *Frearson v Loe* as authority for the proposition that it was not infringement 'if a person takes a patented article for the purpose of seeing whether he can improve upon [it], not practically using [the article] in a practical sense, but testing and trying from that patented article whether he can invent a better thing for the public'.

55 *Muntz v Foster* (1844) 2 WPC 96.

56 See *Molins v Industrial Machine Co Ltd* [1936] 54 RPC 94, 108; *Hoffmann-La Roche v Harris Pharmaceuticals Ltd* [1977] FSR 200, 203: sales of patented material to a person for use in experimentation is an infringement, even though the experimental use would not be an infringement.

57 See *Smith Kline & French Laboratories Ltd v Attorney-General (NZ)* (1991) 22 IPR 143 ('*Smith Kline*'): there are legislative provisions to deal with the special case of generic drugs.

58 (1885) 2 RPC 28.

The position may be different if the instruction is in an educational institution and does not involve the purchase of an infringing product for this purpose. For example, the demonstration to undergraduate students of how a patented process works involves no derivation of commercial advantage or profit and should not be a use that the patentee can restrain.

These cases support the proposition that ‘whole profit and advantage’ is concerned with commercial advantage or benefit. They provide additional support for the view that there is some limitation on the scope of the exclusive rights of the patentee in this respect.<sup>59</sup>

#### IV LIMITATIONS THAT ARISE FROM CONSTRUCTION OF THE *PATENTS ACT 1990* (CTH) AND ITS REGULATIONS

Parts II and III of this article laid the foundations for arguing that the exclusive rights of the patentee under the *1990 Act* are limited. In this Part, various specific provisions of the *1990 Act* are discussed to provide further support for limitations on the exclusive rights.

##### A The Case of Micro-Organisms and the Budapest Treaty

It is clear that the law governing patent procedure in Australia recognises the entitlement of a person to obtain a sample of a deposited micro-organism for the purpose of certain ‘experimental purposes’. However, the reason for the inclusion of this provision is obscure. Australia acceded to the *Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure* (‘Budapest Treaty’) on 7 July 1987, having made this possible through amendments introduced into the *1952 Act* by the Patents Amendment Bill 1984 (Cth) and *Patents Regulations (Amendment) 1987* No 78 (Cth).<sup>60</sup> The Budapest Treaty establishes a system where it is necessary to deposit a sample with a prescribed International Depository Institution (‘IDI’). IDI of inventions that are micro-organisms cannot be described adequately in the words of the complete specification.<sup>61</sup> The provisions apply also where an invention involves the use, modification or cultivation of a micro-organism which is not reasonably available to a person skilled in the relevant art.<sup>62</sup> According to the World Intellectual Property Organization (‘WIPO’), ‘the whole point of depositing a microorganism for patent purposes is to make it available to entitled parties according to the requirements of patent law.’<sup>63</sup>

59 Prior to the recent inquiries into experimental use, it was common to find that commentators accepted some limitation on the scope of the exclusive rights of the patentee that is connected with the non-commercial use of the invention. See, eg, Ricketson above n 47, [50.22].

60 My thanks to Sarah Weinberg for tracking down the relevant amending legislation.

61 *Patents Act 1990* (Cth) s 40(2)(a), ss 41 and 42; *Patents Act 1952* (Cth) sub-ss 40(1)(a), (3)–(7).

62 This does not necessarily require that the micro-organism is reasonably available in the patent area: *Patents Act 1990* (Cth) s 41(3).

63 WIPO, ‘Part I, General Requirements for deposit and Furnishing of Samples’, in *About Intellectual Property*, <[http://www.wipo.int/about-ip/en/budapest/guide/part\\_i\\_section\\_c.htm](http://www.wipo.int/about-ip/en/budapest/guide/part_i_section_c.htm)> at 14 June 2006.

The Budapest Treaty makes provision in Rule 11 for the furnishing of samples in a variety of circumstances, one of which is to parties who are legally entitled.<sup>64</sup> The entitlement arises from the national law governing patent procedure. There is no express provision that samples can be furnished for experimental purposes. The scheme of the 1984 Amendment Act and subsequent 1987 Regulations introduced the requirement under Australian national law for samples to be furnished for use for experimental purposes. A party who seeks a sample<sup>65</sup> of the micro-organism must obtain the prior certification of entitlement from the national IP office.<sup>66</sup> Regulation 19ZF of the 1987 regulations provided for the request to be made in accordance with Form 37. This Form required the applicant to give an undertaking:

(d) ...

- (i) not to make that micro-organism, or any culture derived from that micro-organism, available to any other person; and
- (ii) to use that micro-organism *only for experimental purposes*; ... (emphasis added).

The circumstances in which a person can obtain a micro-organism sample pursuant to certification from the Commissioner under the *1990 Act* are set out in Regulation 3.25.<sup>67</sup> It provides, inter alia, for access if the person making the request has undertaken to use that micro-organism only for specified purposes that include experimental purposes.<sup>68</sup> The Commissioner is not required to comply with the request if he is reasonably satisfied that the undertaking was not given in good faith.<sup>69</sup> In making this assessment, any benefit of the doubt must go to the requestor.<sup>70</sup> In complying with a request for certification for a release of a micro-organism, the Commissioner can impose such conditions on the release of the sample as are reasonable.<sup>71</sup>

Therefore, both the 1952 and 1990 Acts require that samples of deposited micro-organisms are to be furnished on request for use for experimental purposes when appropriate undertakings are provided. The reason for this express reference to 'experimental purposes' is evident from the second reading speech in the House of Representatives made in support of the Patents Amendment Bill

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64 *The Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure*, opened for signature 28 April 1977, WO002EN, r 11.3 (entered into force 19 August 1980). See WIPO, *About Intellectual Property*, above n 60. The others are; to interested Industrial Property Offices (r 11.1); and, with the authorisation of the depositor (r 11.2).

65 Australian Patent Office, *Manual of Practice and Procedures* <[http://www.ipaustralia.gov.au/pdfs/patentsmanual/WebHelp/Patent\\_Examiners\\_Manual.htm](http://www.ipaustralia.gov.au/pdfs/patentsmanual/WebHelp/Patent_Examiners_Manual.htm)> at 27 June 2006, [6.6.2.1] (form of request) and [6.6.4] (substance of undertaking).

66 See Form BP/12: Request for furnishing of samples of deposited micro-organisms pursuant to r 11.3(a).

67 See Patent Office Manual, above n 65, [6.6.2.1].

68 *Patents Regulations 1990* (Cth) reg 3.25(4)(c).

69 *Patents Regulations 1990* (Cth) reg 3.25(4)(d). *Patents Regulations 1987* (Cth) reg 19ZF(3)(c).

70 *New York University v Nissin Molecular Biology Institute Inc* (1994) AIPC 91-069, 38, 332.

71 *Patents Regulations 1990* (Cth) reg 3.25(2)(b). *Patents Regulations 1987* (Cth) reg 19ZF(2).

1984 (Cth) by Barry Jones, Minister for Science, Customs and Small Business.<sup>72</sup> The second reading speech explained the purpose of the Bill as follows:

The purpose of the Patents Amendment Bill is to encourage commercial realisation of biotechnology research in Australia. The Bill also makes possible Australia's accession to the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms. These measures complement a program of government support for biotechnology including a Budget allocation for 1983–84 of \$12.2m.<sup>73</sup>

The speech focussed upon the need to convert good research in biotechnology into development with the support of increased research funding, incentives for increased co-operation between academic researchers and industry and changes to patent law. The speech makes it clear that the government believed that patent law was failing to meet the needs of patentees, industry and the public. As the Hon Barry Jones stated:

It is up to government to make sure it catches up. In the case of biotechnology patents the lag has arisen from the virtual impossibility of carrying out an invention without access to a sample of the micro-organism used. Existing law requires a full written description of the invention. But where the invention involves the use of a micro-organism strain which is not available to researchers, a written description may well be next to useless. An antibiotic producing strain might have been isolated by unrepeatable fluke from the bottom of a lake in Scandinavia or from the soil in someone's backyard. The most thorough characterisation of the strain will not help anyone, apart from the patentee, to test the truthfulness of the patent specification ought to make further developments on the basis of the invention. The information is good only if we can obtain the actual materials needed as a starting point for further work. What is needed is a sample of the organism.<sup>74</sup>

He then continued:

The essence of this Bill is to complement the existing requirement of a full description by also requiring deposit, with a prescribed depository institution, of patent strains of micro-organisms which are not reasonably available. ... As a result of the amendments, Australian industry will be guaranteed access to strains of all micro-organisms used in patent processes, just as access to information in written descriptions of inventions is guaranteed under the current law.

As to the terms on which an applicant may gain access to the sample, he stated that:

The terms of the authority to be required by the regulations will be discussed with industry to ensure that a fair balance of interest is struck. It is fundamental to the notion of patents that the patentee should be left with an enforceable monopoly. An unauthorised user of a strain can still be sued for infringement.<sup>75</sup>

The 1987 Regulations show that the 'fair balance of interest' that was struck with industry included the access to micro-organisms for research purposes. Finally, the conclusion that Barry Jones drew was that:

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72 The Explanatory Memorandum makes no mention of experimental purposes, but states that the amendments will give Australian industry more ready access to the micro-organisms. It mentions that the terms of access are to be discussed with industry.

73 Second Reading Speech, Patents Amendment Bill 1984 (Cth), House of Representatives, 28 March 1984 (Barry Jones, Minister for Science, Customs and Small Business), 895.

74 Ibid 898.

75 Ibid 899.

The Patents Amendment Bill demonstrates the Government's awareness of the need for commercial realisation of Australia's research and development efforts in biotechnology. Industry and researchers must continue to convert opportunities into advantages in this competitive field. The Bill offers improved ways in which they can be achieved.<sup>76</sup>

Clearly, the intention is that one of these opportunities is the use of inventions for certain experimental purposes, at least to the extent stated, namely to 'test the truthfulness of the patent specification' and 'to make further developments on the basis of the invention'. There is no suggestion that this type of non-infringing use is restricted to biotechnology inventions of this type. Rather, the intention is to place inventions in this field on the same playing field as all other inventions that are adequately and fully described in writing. There is an assumption that this type of experimental use exists in relation to those inventions already. Although no mention was made of the obiter in *Frearson v Loe*, there is a striking resemblance to the emphasised section of the following passage from that case:

no doubt if a man makes things merely by way of *bona fide* experiment, and not with the intention of selling and making use of the thing so made for the purpose of which a patent has been granted, but with the view of improving upon the invention the subject of the patent, or with the view of seeing whether an improvement can be made or not, that is not an invasion of the exclusive rights granted by the patent.<sup>77</sup>

In the absence of any evidence to the contrary, the policy expressed above continues to apply to the relevant provisions under the *1990 Act* and *1991 Regulations*. Moreover, it is consistent with the parliamentary intention to retain an experimental use exemption from infringement under the *1990 Act*. Consequently, these specific provisions provide further evidence to support the parliamentary intention for the existence of a general experimental use exemption from infringement, as opposed to an exemption that applies only to deposited micro-organisms. A decision of the Deputy Commissioner of Patents ('DCP') in *New York University v Nissin Molecular Biology Institute Inc*<sup>78</sup> also supports this approach. New York University ('NYU') had filed a patent application in respect of a method of producing a heterohybridoma cell which makes a human monoclonal antibody against a neutralizing epitope of HIV-1, and cell lines produced by that method. Nissin sought release of a sample for experimental purposes in order to 'establish the difference between an antibody developed by us and an antibody produced by the hybridoma deposited under accession No. ATCC HB 10725.'

The DCP concluded that the words 'experimental purposes' in regulation 3.25(4)(c) should be construed analogously to those experimental uses of an invention that do not give rise to infringement of a patent. He assumed, without reference to the origins of the provisions, that experimental use of an invention does not constitute infringement of the patent, based upon the *dicta* in *Frearson v Loe*,<sup>79</sup> namely:

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76 Ibid.

77 *Frearson v Loe* (1878) 9 Ch D 48, 66–67.

78 (1994) AIPC 91-069 (D Herald).

79 (1878) 9 Ch D 48, cited in *Monsanto Co v Stauffer Chemical Co (NZ)* [1984] FSR 559.

no doubt if a man makes things merely by way of bona fide experiment, and not with the intention of selling and making the thing so made for the purpose of which a patent has been granted.<sup>80</sup>

The DCP concluded that the request fell within the scope of 'experimental purposes'. He found that there was nothing that suggested that Nissin was making or preparing to make commercial gain through exploitation of the hybridoma the subject of the deposit. The DCP noted that 'I would have thought it highly desirable for a person who believes they have a similar organism to undertake comparative experiments, to *inter alia* avoid the possibility of infringing the patent'.

Therefore, the existence of the specific provisions concerning micro-organisms support the case for the existence of an experimental use exemption that is of general application. Furthermore, this statement of the DCP would add a further specific non-infringing use to those listed above in Part III.

## **B Experimental Purposes and Commercial Advantage: Bedford Industries**

There is some judicial comment regarding the *1990 Act* that supports the continuing existence of some limitation of the exclusive rights of the patentee for experimental purposes. These comments approve dicta from a 1991 decision in the New Zealand Court of Appeal that recognise the existence of limited rights as inherent in the meaning of 'use'.

At the trial in *Bedford Industries Rehabilitation Inc v Pinefair Pty Ltd*,<sup>81</sup> von Doussa J agreed with the views expressed in Lahore, *Patents, Trade Marks and Related Rights*<sup>82</sup> that the definition of 'exploit' in the *1990 Act* 'attempts to encapsulate the decisions in which these words 'make, use, exercise and vend' have been interpreted.'<sup>83</sup> He observed that 'there seems to be no reason to doubt that in the definition the words 'make' and 'use' carry the same meaning as has been given to those words in the former legislation.'<sup>84</sup>

He cited a variety of cases that considered the meaning of the word 'use' to demonstrate the traditional formulation of the scope of that word. In the process, his Honour appears to accept some limitation of the exclusive rights of exploitation under the *1990 Act* in accordance with the following passage of Hardy Boys J in the New Zealand Court of Appeal decision in *Smith Kline*.

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80 *New York University v Nissin Molecular Biology Institute Inc* (1994) AIPC 91-069, 38, 329.

81 (1998) 40 IPR 438 ('*Bedford Industries*').

82 Lahore, Dwyer and Duffy, above n 46, [24,000].

83 *Bedford Industries* (1998) 40 IPR 438, 449 (von Doussa J).

84 *Ibid*.

These cases serve to delineate not only the limits of the experiment principle, but also the bounds of permissible activity. Doubtless experimentation will usually have an ultimate commercial objective; where it ends and infringement begins must often be a matter of degree. If the person concerned keeps his activities to himself, and does no more than further his own knowledge or skill, even though commercial advantage may be his final goal, he does not infringe. But if he goes beyond that, and uses the invention or makes it available to others, *in a way that serves to advance him in the actual marketplace*, then he infringes, for the marketplace is the sole preserve of the patentee.<sup>85</sup>

Justice Von Doussa proceeded to apply the criterion for 'use' as 'taking commercial advantage of the invention to advance them into the market place'.<sup>86</sup> On appeal, Mansfield J agreed with his Honour's observations:<sup>87</sup>

From each of those judgments there emerges in my view an appropriate focus upon the market for the product the subject of the patent as the sole preserve of the respondent, so that manufacture and use of that product to the commercial advantage of the appellants would infringe the patent. It is apparent that the appellants were taking commercial advantage of the patent. They were doing so not in some peripheral or transitory way.<sup>88</sup>

Therefore, in both the judgment of von Doussa J at trial and Mansfield J on appeal, there is recognition of two important matters. First, all past case-law on the meaning of 'use' in the phrase 'make, use, exercise or vend' remains relevant to an interpretation of the term 'use' in the definition of 'exploit'. Second, the approval of the judgments in *Smith Kline* includes an acceptance that the terms 'make' and 'use' in that definition are not all encompassing: they recognise that there is a point at which experimentation which involves making or using the invention is a permissible activity. In other words, some amount of experimentation falls outside the scope of the exclusive rights of the patentee.

It is important to note that the *Bedford Industries* litigation was not concerned with whether experimentation amounted to an infringement, but with whether Pinefair made or used the patented invention as an intermediary step in the manufacture of a non-infringing product. Hence, there is limited authoritative value in the references to the non-infringing nature of experimental use. Nevertheless, we still have obiter dicta of two Federal Court judges that recognise limits on the exclusive rights of the patentee. The reference point is taking commercial advantage of the invention to advance them in the marketplace. As von Doussa J in *Bedford Industries* concluded:

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85 [1991] 2 NZLR 560; 22 IPR 143, 149 (emphasis added). The case concerned importation by a generic drug manufacturer of a drug that embodied the plaintiff's invention into New Zealand for the sole purpose of marketing approval to distribute the drug upon expiry of the patent.

86 *Bedford Industries* (1998) 40 IPR 438, 450.

87 The appeal judges focused their attention on the meaning of 'make' and their judgments offer no comment one way or the other as to the meaning of 'use' in the definition of 'exploit'.

88 *Pinefair Pty Ltd v Bedford Industries Rehabilitation Association Inc* (1998) 42 IPR 330, 341 (Mansfield J). The judgments to which he refers are those of Hardie Boys J (quoted in the above text) and that of Cooke P in *SmithKline & French Laboratories Ltd v Attorney-General (NZ)* (1991) 22 IPR 143.

creation of edging material that has all the essential integers of claim 1 of the patent as a step in the manufacture of the Pinefair product constitutes a 'use' of the invention as the respondents are taking commercial advantage of the invention to advance them in the marketplace, even though at the point of sale the Pinefair product has been altered so that it no longer possesses all the integers of the claim.<sup>89</sup>

### C Experimental Use in the Context of 'Secret Use'

The provisions that relate to prior secret use of a patentee also support some limitation on the scope of the exclusive rights of a patentee. In fact, these provisions may prove to be immensely useful in clarifying its scope. Section 9 sets out certain acts that do not amount to a secret use of the invention. In particular, it provides:

For the purposes of this Act, the following acts are not to be taken to be secret use of an invention in the patent area:

- (a) any use of the invention by or on behalf of, or with the authority of, the patentee or nominated person, or his or her predecessor in title to the invention, for the purpose of reasonable trial or experiment only.

### D The Case for Rejection of an Exemption for Experimental Use

Craig Smith points out in his comprehensive article 'Experimental Use Exception to Patent Infringement – Where does Australia Stand?',<sup>90</sup> that sub-section 9(a) can be used to reject and support an exemption from infringement for experimental use of an invention. However, like both the ALRC and ACIP, he is ambivalent as to the existence of the exemption. This article argues that section 9 provides clear support for the existence of limitations on the nature of the exclusive rights of the patentee, one of which is for certain experimental uses of the invention.

Smith presents the argument for rejection as flowing from the express exception for the purpose of trial and experiment. The exception is redundant if 'secret use' in section 9 is already limited in its scope. He then argues that the term 'use' in the definition of 'exploit' in Schedule 1 can be interpreted in the same unqualified manner. He points out that this link between the meaning of 'use' in both provisions has the support of all judges in *Azuko Pty Ltd v Old Digger Pty Ltd*.<sup>91</sup>

This is a persuasive argument and one that is difficult to challenge on the face of the Act. A conclusion that 'use' is unlimited in scope in section 9 is reasonable in light of the express limitations in sub-sections 9(a), (b), (c) & (d). However, a conclusion that 'use' in the definition of 'exploit' is also unlimited in its scope is completely contradictory to the intention expressed in the explanatory memorandum and the second reading speeches. Hence, it seems that this

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<sup>89</sup> *Bedford Industries* (1998) 40 IPR 438, 450.

<sup>90</sup> Craig Smith, 'Experimental Use Exception to Patent Infringement – Where does Australia Stand?' (2003) 50 *Intellectual Property Forum* 14.

<sup>91</sup> (2001) AIPC 91-741 ('*Azuko*'). For an analysis of the secret use provisions and their relationship with the definition of 'exploit', see: Ann Monotti, 'To make an article for ultimate sale: the secret use provision in the *Patents Act 1990* (Cth)' (2005) 27(12) *European Intellectual Property Review* 446.

construction cannot be correct. Moreover, although the judges in *Azuko* link section 9 and the Schedule 1 definition for the specific purpose of identifying the nature of the acts that fall within the concept of 'use' in section 9. The majority of Gyles and Beaumont JJ held that secret 'use' did not include all the acts which can amount to an exploitation of the invention. In their view, it would exclude the making of a patented product. In contrast, Heerey J construed 'use' in a compendious sense that was equivalent to 'exploit'. The differences are important from the perspective of assessing whether the manufacture of patented products amounts to 'secret use'. However, no judge directed his attention to the question of whether the term 'use' in section 9 is identical in its scope with the term 'use' in the Schedule 1 definition. In other words, the impact that implied limitations on the word 'use' in 'exploit' would have upon the meaning of 'use' in section 9 was not considered. Therefore, although the judges in *Azuko* linked the provisions, their judgments are not authority for the argument that 'use' in both section 9 and 'exploit' is unlimited in its scope.

This still leaves the conundrum created by the express list of exclusions in section 9. Craig Smith sets out possible explanations for this. They are that 'use' in section 9 does not read on 'use' in the definition of 'exploit', and that the exclusion was either by way of clarification or was to cover different activities or scope from any limitations that exist in the exclusive rights of the patentee. A further explanation is that it was not appreciated that connections would later be drawn between 'use' in section 9 and 'use' in the definition of 'exploit' when the Act was drafted. The deliberate decision to preserve the limitations on the exclusive rights of the patentee under the definition of 'exploit' as implied rather than express limitations was without reference to the decision to include express limitations on secret use in section 9. There is no suggestion that anyone considered the impact that these sections would have on each other. The Act does not define secret use and the explanatory memorandum to the 1990 Bill makes no reference to the intended scope of this term. It merely states that '[p]rior secret use of an invention may invalidate a patent in some circumstances. This clause sets out certain events which are not to be taken as secret use for the purposes of the legislation.'<sup>92</sup>

### **E The Case that Supports an Exemption for Experimental Use**

The argument that supports an exemption is based upon the rationale for secret use by the patentee as a ground of revocation under the *1990 Act*. As Gyles J in *Azuko* expressed it, 'has what occurred amounted to a de facto extension of the patent term?'

Smith argues that the express exclusion of experimental purposes in section 9 from the scope of an invalidating secret use in effect excludes this activity from the scope of the patentee's exclusive rights. If experimental use by the patentee does not amount to enjoyment of the relevant benefits gained from a patent monopoly, then experimentation by others should not constitute an infringement. This is a strongly persuasive argument and would assist clarification of the

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92 Explanatory Memorandum, 1990 Bill, [18].

existence of a more clearly defined experimental use exemption under the 1990 Act. Nevertheless, it did not convince Smith for two reasons: first the experiments may not be identical in scope; second, there is no express exception for experimental use from the scope of the patentee's exclusive rights.<sup>93</sup>

However, his concerns can be allayed to some extent. First, the above analysis of the Explanatory Memorandum to the 1990 Bill deals with the second objection: there may have been no express exception, but implied exceptions continue to apply. Second, while the nature of the experiments may be different, this is not necessarily the case. The provision in sub-section 9(a) does not permit experiments of all kinds. As Heerey J stated in *Azuko* '[t]he provision is limited to trial or experiment to see how the product of an invention performs and whether any improvements are needed, as distinct from commercial or marketing assessments'.<sup>94</sup>

This description of the scope of the exception for secret use bears a startling resemblance to the dicta in *Frearson v Loe*:

no doubt if a man makes things merely by way of *bona fide* experiment, and not with the intention of selling and making use of the thing so made for the purpose of which a patent has been granted, but with the view of improving upon the invention the subject of the patent, or with the view of seeing whether an improvement can be made or not, that is not an invasion of the exclusive rights granted by the patent.<sup>95</sup>

It is also consistent with the type of experimental use that was envisaged in the context of micro-organisms. It is clearly possible (and desirable) for a third party to use the invention in these ways, so we have a clear example of where experiments by a patentee or a third party may be for the same purpose.

In any event, it is unnecessary for the acts that a patentee or a third party performs respectively, to mirror image each other in order to argue that section 9 support limitations on the patentee's exclusive rights. The effect is that both these acts have the defining feature for both secret use and infringement. In the case of the patentee, acts constitute a secret use if they amount to a *de facto* extension of the patent term. In other words, they must not allow the inventor to derive greater advantage from the invention than is contemplated by the Act through its use for a period of time prior to disclosing it.<sup>96</sup> In the case of third parties, the cases discussed above indicate that acts infringe when they interfere with the exclusive right of the patentee to derive profit or advantage from use of the invention.<sup>97</sup> Once again, there is a striking similarity between the rationale for excluding certain acts from the scope of secret use and for limiting the scope of the

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93 Smith, above n 87, 15.

94 *Azuko* (2001) AIPC 91-741, 39,857 [147].

95 *Frearson v Loe* (1876) 9 Ch D 48, 66–7.

96 *Grove Hill Pty Ltd v Great Western Corporation Pty Ltd* (2002) AIPC 91-810, [212] (Dowsett J, French and Gyles JJ concurring); *Azuko* (2001) AIPC 91-741, [180] (Gyles J, with whom Beaumont J agreed), [105] (Heerey J); *Morgan v Seaward* (1837) 2 M & W 544; 150 ER 874, 559, 880 (Parke B); *Bristol-Myers Co v Beecham Group Ltd* [1974] AC 646, 680–1 (Lord Diplock).

97 The dicta in the above cases also deal with an experimental use exemption from infringement that helps focus attention on the effect of those acts upon the patentee's exclusive right to profit and advantage from use of the invention.

patentee's exclusive rights: both focus upon the commercial derivation of profit or advantage from use of the invention.

Therefore, the express exception for trial and experiment in section 9(a) is consistent with the existence of an implied exemption from infringement for trial and experiment. One mirrors the other, not necessarily in terms of the nature of the acts but in terms of their purpose and outcomes. This conclusion is consistent with the policy that underlies the *1990 Act*, the rationales for patent protection, the special provision for inventions that are micro-organisms, and the decisions that construe the scope of the exclusive rights of the patentee. Therefore, there is strong support for defining the scope of an experimental use exemption to infringement with reference to the scope of the secret use exemption in section 9(a), at least to the extent that Heerey J has identified, and possibly more broadly. The actual scope of the exception to section 9 and the implied exemption await further development.<sup>98</sup> For example, since *Azuko*, it has been held that section 9(a) may apply, even though there is also a collateral commercial advantage to the inventor, such as the production of a commercial crop. In *Grove Hill Pty Ltd v Great Western Corporation Pty Ltd*, it was argued that there could be no experimental use within section 9(a) because the use of the invention being a row cultivator was in connection with the cultivation of commercial crops. Justice Dowsett disagreed and held that '[i]f the true purpose of the use is for trial, and the trial is reasonable, any collateral commercial advantage to the inventor is irrelevant.'<sup>99</sup>

This is consistent with the proposition that the exclusive rights of the patentee give the patentee the right to all profit and advantage from use of the invention, but they do not extend to profit and advantage that arises from some other activity. In this case, the crop would be grown and sold irrespective of the trial of the cultivator. Therefore, the sales profit would arise 'from use of the invention'.

The logical extension of this argument is that acts that fall within the language of sections 9(b) and (c) and that do not amount to a *de facto* extension of the patent term would not infringe the patent if performed by a third party. The relevant provisions read:

- (b) any use of the invention by or on behalf of, or with the authority of, the patentee or nominated person, or his or her predecessor in title to the invention, being use occurring solely in the course of a confidential disclosure of the invention by or on behalf of, or with the authority of, the patentee, nominated person, or predecessor in title;
- (c) any other use of the invention by or on behalf of, or with the authority of, the patentee or nominated person, or his or her predecessor in title to the invention, for any purpose other than the purpose of trade or commerce

These exceptions are entirely consistent with the implied limitations that have arisen in cases that have construed the meaning of 'make, use, exercise and vend'. Moreover, they are entirely consistent with the obiter dicta that are

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98 *Grove Hill Pty Ltd v Great Western Corporation Pty Ltd* (2002) AIPC 91-810, [229] ('*Grove Hill*').

99 *Ibid*. This is analogous with the view expressed by Dillon LJ in *Monsanto v Stauffer* [1985] RPC 515 in the different context of the operation of the exceptions to infringement provisions under the *Patents Act 1977* (UK).

discussed in the various cases above with regard to the scope of the experimental use exemption to infringement. If this approach has merit, the cases that interpret the scope of these exceptions to secret use may provide a valuable guide for the scope of any exemptions from infringement.

## **F Meaning of Experimental Use in the Context of Prior Public Use**

At first glance, cases that deal with experimental and trial uses in the context of prior public use do not seem relevant to the scope of a patentee's rights and infringement. In the context of prior public use, the question is whether a use that would otherwise form part of the prior art base for novelty and inventive step is disregarded for reasons of policy that have nothing to do with the scope of the patentee's rights. Regulation 2.2(d) provides as follows:

- (d) the working in public of the invention within the period of 12 months before the priority date of a claim for the invention:
  - (i) for the purposes of reasonable trial; and
  - (ii) if, because of the nature of the invention, it is reasonably necessary for the working to be in public.

Therefore, the public disclosure is excused because it is necessary for the development of the invention.

Although the policy that underlies both provisions is different, the patentee performs the acts in each case for the purposes of reasonable trial. If the acts were performed in secret, they would be reviewed in light of the exception contained in section 9(a) of the *1990 Act*. If they are performed in public, they are reviewed under regulation 2.2(d). It is logical to assume that a use in public that is found to satisfy regulation 2.2(d) would also satisfy sub-section 9(a) if it were performed in secret. However, it is worth noting that the exception for purposes of prior public user is narrower than that for secret use: sub-section 9(a) speaks of both trial and experiment whereas regulation 2.2(d) speaks only of 'reasonable trial'. As Dowsett J pointed out in *Grove Hill*, these terms have different meanings.<sup>100</sup> This limitation reflects the different policy rationales for each provision.

Therefore, the types of prior public use of inventions that involve reasonable trial can help judges formulate the types of trials that are excluded from the concept of secret use. In turn, where those trials do not result in a de facto extension of the patent term, their essential elements will help inform the concept of trials that fall outside the scope of the patentee's exclusive rights.<sup>101</sup> This contrasts with the position in the UK, where the definition in section 60 of the *1977 Act* and its express exceptions were enacted to bring UK patent law into line with the corresponding provisions of the Community Patent Convention. As Dillon LJ observed in *Monsanto Co v Stauffer Chemical Co*, there was 'no reason

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<sup>100</sup> Ibid 37,868 [231].

<sup>101</sup> It is worth noting that, in the context of the express exclusion for experimental use under the 1977 UK Act, *Monsanto Co v Stauffer Chemical Co* [1985] RPC 515, Falconer J considered this line of cases in determining the meaning of the 'experimental use' exception to infringement. Although this approach was rejected by the Court of Appeal, the reasons for their rejection are not relevant to Australian patent law.

to suppose that the signatories of that Convention were concerning themselves with the minutiae of earlier UK patent law'.<sup>102</sup> For that reason, he was not prepared to consider earlier decisions of UK courts on phrases such as 'reasonable trial' or 'reasonable trial or experiment' in various contexts in earlier UK Patent Acts.

## V CONCLUSION

This article argues that the patentee does not have unlimited rights to stop others from using the invention. This conclusion is consistent with the policy that underlies the *1990 Act*. It is consistent with the IPCR statements regarding competition. It is also supported by statements in the Explanatory Memorandum and the second reading speeches to the *1990 Act* and the amending Act of 1984. Further, it is supported by obiter in cases under the *1990 Act*, and it is consistent with the provisions in section 9, whose terms can assist with defining the limitations on the scope of the exclusive rights of the patentee.

The exploration of a connection between the scope of the exceptions to prior secret use and the inherent limitations on a patentee's exclusive rights, provides considerable scope to argue that an exemption from infringement operates by way of limitation of the patentee's rights rather than by way of defence to otherwise infringing conduct. The scope of this limitation could extend to all uses that appear in the *Patents Act 1977* (UK), but is not limited by express provisions that define its scope. The *1990 Act* contains provisions that give judges the opportunity to permit many types of private and non-commercial experiments and trials that researchers perform. However, lack of certainty as to the scope of the exclusive rights of the patentee, and hence any exemption for experimentation and research, still remains an issue. Although, the existence of some limitations on the exclusive rights seems undeniable in light of the above discussion. Recognition of these ideas should influence the way in which parliament deals with any suggestions for reform and, in particular, with the ACIP recommendations.

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102 *Monsanto Co v Stauffer Chemical Co* [1985] RPC 515, 538.