

National Group: Australia
Title: Prior User Rights
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Questions

I. Analysis of current law and case law

Groups are invited to answer the following questions under their national laws:

1. Is there a provision in your national patent law that makes an exception to the exclusive right of a patent holder for parties who have used the invention before the filing/priority date of the patent (“prior user rights”)?

*Yes. Section 119 of the Patents Act 1990 (Cth) (the **Act**) provides that a person may, without infringing a patent, do an act that exploits a product, method or process and would infringe the patent apart from the subsection if, immediately before the priority date, the person was exploiting the product, method or process in Australia or had taken definite steps (contractually or otherwise) to exploit the product, method or process in Australia.*

Section 223(9) of the Act provides that where a party has failed to do a relevant act in relation to a patent, or where a patent has lapsed or ceased, parties who exploited the patent or took definite steps to exploit the patent because of the patentee’s failure to act, or the lapsing or ceasing of the patent, those parties will be protected.

Section 57 of the Act also provides that damages are only available after a patent is open for public inspection,

2. How frequently are prior user rights used in your country? Is there empirical data on how often prior user rights are asserted as a defense in negotiations or court proceedings?

Prior user rights are only infrequently asserted in Australia. At the date of this report, there are less than 20 reported decisions which refer to s 119 of the Patents Act 1990 (Cth), of which only 3 or 4 deal with the section in any detail.

3. To what degree must someone claiming a prior user right have developed the embodiment which is asserted as having been used prior to the filing/priority date of the patent? Is it sufficient to have conceived of the embodiment, or must it have been reduced to practice or commercialized?

Under Section 119(1), a party can only rely on the defence if it was exploiting the product, method or process; or it had taken definite steps (contractually or otherwise) to exploit the product, method or process in the patent area.

Although the scope of the defence has not been exhaustively tested, it is likely to be very narrow. An Australian court has stated that:

“The concept of which s 119 speaks may be illustrated by the following example. Assume a patented product consisting of components A, B and C. Immediately before the priority date an infringer: has drawings depicting the product; has actually made A; has on his premises the raw materials for component B; and has ordered the raw materials for component C. It can then be said that the infringer had taken definite steps to make that product. Conversely, it would not be sufficient that immediately before the priority date, the infringer has made A, has received the raw materials for B but is investigating whether C, D or E would be the preferable final component. And the infringer would be in no better position if, after the priority date, he in fact decided that C was preferable and then proceeded to manufacture a product consisting of A, B and C.”¹

In the same case, the court indicated that if a product is in the process of development, the defendants will not be able to rely on the prior user defence.² Finally, the court noted that under the corresponding English provision (which on its face appears more favourable to infringers than the Australian provision) a party who had imported prototypes, contemplated manufacturing and considered pricing would not be able to rely on the defence.³

It therefore appears likely (on the basis of English law) that the defence will not apply unless the defendant’s actions are so advanced as to be about to result in the infringing act being done.

4. Does it make a difference in your country if
- (a) the prior use occurred before the priority date; or
 - (b) it occurred after the priority date, but before the filing date?

¹*Welcome Real-Time SA v CatuityInc*(2001) 113 FCR 110; (2001) 51 IPR 327; [2001] FCA 445 at [94]
(Welcome)

²*Welcome*, ibid at [100]

³*Welcome*, ibid at [96] to [97]

Yes. The defence only applies to acts undertaken immediately before the priority date (Note however that s 57 of the Patents Act has the effect that damages are only recoverable after a patent becomes open for public inspection, and that s 223(9) provides some protection for a party who has exploited or taken definite steps to exploit a patent because of a patentee's failure to do a relevant act in relation to a patent, or because a patent has lapsed or ceased).

5. Is there a territorial limitation with regard to the scope of prior user rights in your country? In other words, if a party has used the patented invention before the filing/priority date in a foreign country, can it then claim a prior user right in your country?

*A territorial limitation was introduced by the Intellectual Property Laws Amendment Act 2006 (the **Amending Act**), which amended section 119 to provide that a party could only rely on the defence on the basis of exploitation within the patent area (effectively within Australia). Before 2006, section 119 did not incorporate any territorial limitation.*

The original form of the section (without territorial limitation) applies in respect of patents granted as a result of applications filed on or before 28 September 2006.

The current form of the section (which incorporates a territorial limitation) applies in respect of patents granted as a result of applications filed after 28 September 2006.

6. Is there a provision that excludes prior user rights for those who have derived their knowledge of the invention from the patent holder and/or the inventor?

Yes. Section 119(3) provides that the defence does not apply to a product, method or process the person derived from the patentee or the patentee's predecessor in title in the patented invention, unless the person derived the product, method or process from information that was made publicly available:

- *by or with the consent of the patentee or the patentee's predecessor in title; and*
- *through any publication or use of the invention in prescribed circumstances.*

7. Is it necessary that the prior user has acted in good faith to be granted a prior user right?

The statute does not impose any good faith requirement, other than that set out in relation to question 6 above.

8. Is there a material limitation with regard to prior user rights in your country? More specifically, if someone has used an embodiment of a patented invention before the filing/priority date of the patent, can he then claim a prior user right to anything covered by the patent? In particular, is the owner of a prior user right entitled to alter/change the embodiment of the patented invention used before the filing/priority date of the patent to other embodiments that would also fall within the patent's scope of protection or is he strictly limited to the concrete use enacted or prepared before the patent's application or priority date? In the event that changes/alterations are permitted by your national law, to what degree?

Although there are no decisions on this issue, case law in relation to the previous form of the section (which applies in respect of applications filed on or before 28 September 2006) indicates that the relevant product for the purpose of the exemption from infringement is the product claimed in the claim of the patent.⁴ That appears to suggest that the prior user could make changes to the embodiment used by it.

The section in its present form (which applies to applications filed after 28 September 2006) provides that a person may do an act that exploits a product, method or process and would infringe the patent if immediately before the priority date the person was exploiting the product, method or process. On its face, the wording of the section therefore seems to suggest that defence will be limited to the particular product, method or process exploited by the person relying upon it. However, it is unclear whether the person seeking to rely on the defence could make changes to the product and still rely on the defence.

9. Does a prior user right in your country require the continued use (or the necessary preparations of the use) of the invention claimed by the patent at the moment in which the objection of the prior user right is asserted or is it sufficient if the invention claimed by the patent has been used before the priority/filing date of the patent but has been abandoned at a later stage?

*Although the issue has not been considered by courts, section 119(1) requires that the acts relied upon take place **immediately before the priority date**. Section 119(2) provides that the defence does not apply if, **before the***

⁴*Ccom Pty Ltd v Jiejing Pty Ltd* [1993] FCA 653; (1994) Aipc 91-050 (1993) 27 IPR 577 (1993) 48 FCR 41 (Ccom), *Welcome* (ibid)⁵*Vehicle Monitoring Systems Pty Limited v Sarb Management Group Pty Ltd* (trading as Database Consultants Australia) (No 2)(2013) 101 IPR 496 [2013] FCA 395

priority date, the person had stopped (except temporarily) exploiting the product, method or process in the patent area; or had abandoned (except temporarily) the steps to exploit the product, method or process in the patent area. The original section was similarly limited.

The wording of the section (both in its original form and as amended) suggests that the defence may be available to a prior user who stops using the invention **after** the priority date.

10. Is a prior user right transferable and/or licensable in your country? If yes, under what circumstances?

The right is transferable but not licensable. In respect of assignment, the right is only transferable in its entirety, and only in relation to patent applications filed on or after 28 September 2006.

*Section 119(4) provides that a person may dispose of the whole of their entitlement to do an act without infringing a patent to another person (the **recipient**). If a person disposes of their entitlement, section 119 will apply to the recipient as if it was the prior user.*

However, s 119(4) was introduced by the Amending Act, and only applies in relation to patent applications filed after 28 September 2006.

11. Does your national law provide any exceptions or special provisions with regard to a prior user right owned by a company within a corporate group? In particular, can a prior user right be transferred or licensed to another group company?

No, there are no special provisions in relation to corporate groups. The only right to transfer is that conferred by s 119(4), and discussed in relation to question 10 above.

12. Are there any exceptions for any specific fields of technology or types of entity with regard to prior user rights in your country?

No, there are not.

13. The Groups are invited to explain any further requirements placed on prior user rights by their national law.

Case law indicates that the prior user defence under s 119(1) is limited to the alleged infringer's own acts that exploit a product, method or process in a way that would infringe a patent. The defence does not cover the act of au-

thorising another person to exploit the invention (for example, by hiring or selling a process). Therefore, the defence under s 119(1) does not assist the prior user to avoid a finding of infringement on the basis of authorisation under s 117 (the so-called “contributory infringement provisions”).⁵

Further, because the product that attracts protection under the prior user defence is the product referred to in the claim, there may be significant practical limitations on the exception (at least in relation to the previous form of the section). For example, where a claim referred to a computer processing apparatus, a party was not entitled to rely on the prior user defence by reason of their production of a computer program at the priority date (even though it was the program which enabled the apparatus to perform the relevant functions).⁶ This has the consequence that conduct before the priority date may not provide a basis for the prior user defence, even though the same conduct after the priority date might infringe the patent (by reason of contributory infringement provisions).

II. Policy considerations and proposals for improvements to your current system

14. Should a prior user right exist in any legal system? If yes, what is the main legal justification for a prior user right?

Yes, a prior user right should exist. Australian courts have offered the following justification for the right:

“A possible rationale is that [the prior user right] applies to all prior making or using, whether public or secret. The section may have value for an infringer who has engaged in a public making or using but does not wish to engage in the risk and expense of a revocation suit. It seems a reasonable reading of the section that such an infringer obtains relatively clear cut protection over a limited area leaving the patentee otherwise free to exploit the patent. Of course this would not prevent third parties relying on such making or using in their revocation claims. But the whole purpose of s 119 (and its UK counterpart) is to confer a personal right on somebody who would otherwise be an infringer rather than to interfere with the validity of the patent.”⁷

15. What is the perceived value of prior user rights in your country?

The perceived value of prior user rights are limited because the right can only be invoked in very limited circumstances, particularly given that:

⁵*Vehicle Monitoring Systems Pty Limited v Sarb Management Group Pty Ltd (trading as Database Consultants Australia) (No 2)(2013) 101 IPR 496 [2013] FCA 395*

⁶*CCom op cit.*

⁷*Welcome, ibid*

- no provision is made for related companies to rely on a single prior user right,
- the requirements in relation to demonstrating that definite steps have been taken are onerous,
- the law does not make adequate provision for contributory infringement (for example, the manufacture of pharmaceutical products before the priority date where their administration after the priority date to a patient would infringe a method claim would not give rise to a prior use defence).

However, even with these limitations, the right is valuable.

16. Are there certain aspects that should be altered or changed with regard to the existing implementation of the prior user right in your country? In particular, are there certain measures or ways that could lead to an improvement and/or strengthening of your current system?

Yes, the system could be strengthened and improved by:

- Allowing closely related companies to rely on a prior use right;
- Allowing a prior use defence for all acts undertaken before the priority date which would constitute an infringement afterwards (particularly where the acts would give rise to contributory infringement);
- Making express provision in relation to parties who acquire goods from prior users (for example, providing that a reseller who purchases goods from a prior user does not infringe the patent by onselling those goods)
- Clarifying that the prior user defence will apply to improved embodiments of the product, method or process (but not to wholly new products, methods or processes which also fall within the patent claims).

III. Proposals for harmonization

Groups are invited to put forward proposals for the adoption of harmonized rules in relation to prior user rights. More specifically, the Groups are invited to answer the following questions:

17. Is harmonization of “prior user rights” desirable?

Yes, it is.

18. What should be the standard definition of “use” in relation to prior user rights? Must the use be commercial?

The use should not be limited to commercial use in relation to prior user

rights.

19. What should be the definition of “date” (or “critical date”) for prior user rights? (i.e. when must the invention have been used to establish a prior user right?).

The definition should require that the invention has been used before the priority date to establish a prior user’s rights.

20. Should a prior user right persist in the event that the use and/or preparation for use of the invention has already been abandoned at the time of the patent application/priority date or should the prior user right lapse upon the termination of the use and/or preparation of use?

The prior user right should lapse upon the termination of the use and/or preparation of use.

21. What should be the territorial scope of a prior user right? In particular, if a party has used the patented invention before the decisive date in a foreign country, should it then be entitled to claim a prior user right?

No..

22. Should there be a provision that excludes prior user rights for those who have derived their knowledge of the invention from the patent holder and/or the inventor? If yes, should it be necessary that the prior user has acted in good faith to be granted a prior user right?

Yes, there should be a provision that prior user rights be excluded for those who have derived their knowledge of the invention from the patent holder and/or the inventor, unless the information was made publicly available.

23. Should there be material limitation with regard to prior use rights? In particular, if someone has used an embodiment of a patented invention before the filing/priority date of the patent, should he then be entitled to claim a prior user right to anything covered by the patent?

Prior users should be entitled to modify the embodiment used by them but not to change the product beyond obvious improvements. However, prior users should not be able to radically depart from the version of the embodiment used from them.

24. Should a prior user right be transferable and/ or licensable?

Yes, a prior user right should be transferable or licensable, but only on an

exclusive basis. That is, it should not be possible for the prior user to licence to more than a single licensee, or to licence someone else while retaining their own rights.

However, in the case of corporate groups, prior use rights should apply to the group, and not to the individual entities within the group, to ensure that corporate groups are able to enjoy the benefit of the prior use right.

25. Should there be any exceptions for any specific fields of technology or types of entity with regard to prior user rights?

No.

26. The Groups are also invited to present all other suggestions which may appear in the context of the possible international harmonization of “prior user rights”.

N/A.