

# Time To Reconsider Australian And U.S. Law Regarding Exclusive Licenses Of Copyright And Patents?

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**T**he Free Trade Agreement (FTA) that was recently negotiated between Australia and the United States (U.S.) has a number of far-reaching consequences for Australian and U.S. intellectual property law. One, of considerable importance to commercial practice, is the possibility that alterations will be required to the legislation of both countries regarding “exclusive licenses” of copyright and patents.

## The FTA

The FTA will take effect as a treaty between Australia and the U.S. It has yet to be ratified by either country, and its language is still in “draft” status.<sup>1</sup> Nevertheless, it is expected that the wording of the final treaty will not differ too greatly from the current draft.

Article 17 of the FTA sets out standards concerning intellectual property with which both Australia and the U.S. must comply. Of particular interest is the language in article 17.11.5, which requires both countries to make available to rights-holders “civil judicial procedures concerning the enforcement of any intellectual property right.” A footnote to that provision states that “the term ‘right holder’ shall include exclusive licensees,” and that “the term ‘exclusive licensee’ shall include the exclusive licensee of any one or more of the exclusive intellectual property rights encompassed in a given intellectual property.”<sup>2</sup>

1. The text is “subject to legal review for accuracy, clarity and consistency.”  
2. Emphasis added.

At first sight, this provision seems relatively straightforward: each of the kinds of intellectual property dealt with in the FTA; i.e., copyright, trade marks, designs and patents; gives to their owner a number of exclusive rights. In general, each exclusive right deals with an act done in respect of the intellectual property (such as to reproduce a copyright work), and consists of the ability to exclude all other people from doing that act, plus the right to authorise any person or persons to do the act.

As a matter of commercial practice, those rights are often licensed exclusively by the owner of the intellectual property. Sometimes, all rights are licensed exclusively to one licensee. Other times, the rights are apportioned exclusively between more than one licensee. A matter of critical commercial importance is whether the “exclusive” licensee of a piece of intellectual property may bring proceedings against infringers of the right or rights licensed to them. Currently, the answer to this question—both in Australia and the U.S.—depends on the type of intellectual property being licensed.

However, the FTA’s definition of “exclusive licensee” expressly envisages that there may be multiple exclusive licensees of each form of intellectual property, and requires that each of them must be able to sue to enforce their exclusive rights. In essence, article 17.11.5 will require harmonisation in both Australia and the U.S. of the exclusive licensee provisions among different types of intellectual property that govern

the right to bring infringement proceedings.

As a result, it is necessary to examine how well current Australian and U.S. intellectual property law fits with the approach required in article 17.11.5, as well as the practical consequences of the harmonisation that the article imposes.

## Exclusive licences to copyright

Current Australian and U.S. copyright law probably conforms with the requirements of the FTA.

## Australian Position

Under Australian copyright law, an “exclusive licence” is a licence from the copyright owner authorising the licensee “to the exclusion of all other persons, to do an act that, by virtue of this Act, the owner of the copyright would, but for the licence, have the exclusive right to do.”<sup>3</sup> An “exclusive licensee” of copyright has the power to commence proceedings for infringement, subject to various conditions regarding joinder of the owner in appropriate cases.<sup>4</sup>

The concept of “exclusion” is straightforward: it requires that the act be within the monopoly granted by copyright, and that it be granted to the licensee to the exclusion of

3. *Copyright Act 1968* (Cth), section 10.

4. *Copyright Act 1968* (Cth), section 119.

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everyone else including the owner of the copyright.

The concept of “an act” is a little more difficult. It appears that the Copyright Act should be read so that the word “an act” means any activity or activities that are within the scope of the copyright owner’s exclusive rights. For example, the owner of copyright in a work has the exclusive rights to (among other things) make “reproductions” of that work (e.g., exact copies of that work), to make “adaptations” of the work (such as making translations), and also to authorise other people to do either of these acts.

Thus, a copyright owner can grant a licence to reproduce the work in printed form to one person to the exclusion of everyone else, and a licence to reproduce the work in digital form to another person, also to the exclusion of everyone else; or they may grant a licence to one person to translate the work into Russian to the exclusion of everyone else, and a licence to another person to translate the work into Spanish also to the exclusion of everyone else. Each of those licence holders would appear to come within the Act’s definition of “exclusive licensee.”<sup>5</sup>

The use of the word “act” therefore appears to make it clear that the bundle of exclusive rights contained in copyright are divisible, and can be split among one or more people.

### U.S. Position

Similarly, in the U.S., copyright consists of a number of exclusive rights, such as the right to reproduce the copyrighted work, or to prepare derivative works. Not only may each of these rights be granted to a different exclusive licensee, but it also appears that each exclusive right may be subdivided indefinitely, and each subdivision apportioned among different licensees. Provided each licensee is granted the relevant part of the exclusive right to the exclusion of all others, the licence will be an exclusive licence.<sup>6</sup>

5. *PM Sulcs & Associates Pty Ltd v. Detroit Diesel-Allison Australia Pty Ltd* (1997) 39 IPR 328 at 334-5; *Sega Enterprises Ltd v. Galaxy Electronics Pty Ltd* (1998) 39 IPR 577.

An exclusive licence to any exclusive right comprised in copyright is considered to be a “transfer of copyright ownership” in that right (whether or not it is limited in time or place of effect) and the exclusive licensee, as owner of that particular exclusive right, “is entitled, to extent of that right, to all of the protection and remedies accorded to the copyright owner.”<sup>7</sup> This includes the right to bring proceedings for infringement.

### Exclusive licences to patents

It is with respect to exclusive licences to patents that the FTA appears to require a change in the law. The FTA’s requirement that any person who holds “one or more” of the exclusive rights in a piece of intellectual property must have a right to sue to enforce that right is inconsistent with U.S., and possibly also Australian, patent law.

### Australian Position

In Australia, the term “exclusive licensee” is defined in the Patents Act to mean “a licensee under a licence granted by the patentee and conferring on the licensee, or on the licensee and persons authorised by the licensee, the right to exploit the patented invention throughout the patent area to the exclusion of the patentee and all other persons.”<sup>8</sup>

The notion of “exploiting” a patent is also defined: where the invention is a product, “exploit” includes “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;” and where the invention is a method or process, it includes “use the method or process,” or to do any of the above acts “in respect of a product resulting from such use.”

6. *Silvers v. Sony Pictures Entertainment, Inc.*, 330 F.3d 1204 (9th Cir. 2003). See 17 U.S.C. § 201(d)(2): “[a]ny of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately.”

7. 17 U.S.C. § 101 and § 201(d)(2).

8. *Patents Act 1990* (Cth), Schedule 1.

Slightly different language was used in the previous Australian Patents Act, and the High Court held that under that Act there could only be one exclusive licensee of a patent, and that to be an exclusive licensee, the licensee had to be granted all of the relevant rights under the patent.<sup>9</sup> So, a licensee who only had the exclusive right to make a patented product, or to import a product made by a patented process, was not an “exclusive licensee” for the purposes of the previous Act. In such a case, despite the intention of the parties, only the patent owner could commence proceedings for infringement of the patent.

It is unclear whether this approach will be adopted for the current Patents Act, which is worded slightly differently.<sup>10</sup> So far, the proposition has been examined in only one case, which suggests that under the new Act a licence of only some of the patent rights may be an exclusive licence under the Act.<sup>11</sup> The decision is of a single judge, sitting at first instance, and it is unclear whether the basis of the decision will ultimately be accepted by higher courts. If it is, then Australian patent law will be consistent with article 17.11.5 of the FTA. If not, then legislative change will be required.

### U.S. Position

It seems clear that the position in the U.S. is virtually identical to the position under the previous Australian Patents Act. The U.S. Patent Act grants a “remedy by civil action for infringement of [a] patent” only to

9. *Ex parte British Nylon Spinners Ltd; Re Imperial Chemical Industries Ltd* (1963) 109 CLR 336.

10. *Grant v. Australian Temporary Fencing Pty Ltd* (2003) AIPC 91-899.

11. Although the list of actions constituting “exploiting” an invention now reads disjunctively, in contrast to the previous Act, the current Act still refers to “the right” to exploit the patented invention. Such a reference in the previous Act was one of the factors that led the High Court to insist that there could be only one exclusive licensee of a patent. Arguably, unless the licence contains all the rights listed in the definition of “exploit,” it might not be a “licence to exploit” the patent at all, and hence cannot be an “exclusive licence.”

the “patentee,”<sup>12</sup> and to “successors in title to the patentee.”<sup>13</sup> Subsequent case law has confirmed that an exclusive licensee of a patent can also sue for infringement (provided additionally that they join the patentee), because such a licensee has “all substantial rights” to the patent, and so is effectively an assignee of the patent (i.e., a successor in title to the patentee).<sup>14</sup>

However, such a licensee must actually have all substantial rights; a licensee of a patent who does not have “all substantial rights” under the patent is not an exclusive licensee (but a mere licensee), and does not have standing to sue in the U.S. for infringement of the patent.

### **Contrast: United Kingdom Copyright and Patent Law**

The above should be contrasted with the position in, for example, the United Kingdom, where multiple exclusive licences can be granted to both copyright and patent. An exclusive licence to copyright consists of an exclusive grant by the copyright owner to another “to exercise a right which would otherwise be exercisable exclusively by the copyright owner,”<sup>15</sup> while an exclusive licence to a patent involves the exclusive grant (i.e., to the exclusion of all other persons, including the proprietor or applicant) of “any right in respect of the invention to which the patent or application relates.”<sup>16</sup>

### **A licensor’s ability to control its exclusive licensees’ lawsuits**

If Australian and/or U.S. patent law is changed to allow there to be multiple exclusive licensees of

a patent, an important commercial issue arises: can a licensor remove the ability of an exclusive licensee to bring infringement proceedings, and if so, how? The identical issue arises in the copyright context, even though no change in the law is required.

In a commercial context, a licensor may wish to prevent the possibility that one exclusive licensee can take action against another exclusive licensee, or against a third party. This might be the case, for example, where the licensor has commercial relationships with a potential defendant that it wishes to protect. Alternatively it might wish to reduce the chance that the validity of the patent will be challenged by a defendant to a patent infringement suit, which is a common defence tactic in such suits.

At least two issues arise. One involves the ability of private parties to contract out of rights granted in public statutes. The issue is illustrated in its diametrically opposed forms in the Australian Trade Marks Act, which specifically provides that the rights of an authorised user—whether exclusive or not—are subject to contract between the licensor and authorised user, and the Trade Practices Act, which specifically provides that certain rights granted by that Act cannot be contracted out of.<sup>17</sup>

Current Australian copyright and patent law, however, are silent as to whether the rights of an exclusive licensee to bring infringement proceedings can be contracted out of. Given the review process brought

about by the FTA, it would seem an opportune time for this issue to be resolved.

A second issue is whether any limitation on the exclusive licensee’s right to sue might in fact make the licence non-exclusive. Currently, given the definition in U.S. patent law, there is a good argument that any licence granted to a licensee that does not give the licensee unfettered power to sue for infringement is not a grant of “all substantial rights” under the patent, and hence not an “exclusive licence.”<sup>18</sup> The preferable course here would seem to be to adopt language similar to the Australian Trade Marks Act, in which a person may be an authorised user—whether exclusive or otherwise—notwithstanding that their rights under the Act are subject to modification by the parties. Therefore, absent any cogent policy reason, the principle of freedom of contract should prevail.

### **Conclusion**

It appears that neither Australian nor U.S. copyright law regarding exclusive licensees will require amendment as a consequence of article 17.11.5 of the FTA. It is doubtful, however, that the same can be said of Australian and U.S. patent law in that area. In both cases, however, there would be merit in amending the copyright and patent legislation of both countries to expressly deal with whether exclusive licensees’ rights to bring infringement proceedings may be modified by contract.

12. 35 U.S.C. § 281.

13. 35 U.S.C. § 100(d).

14. *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870 (Fed. Cir. 1991); *Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481 (Fed. Cir. 1998).

15. *Copyright, Designs and Patents Act 1988* (UK), section 92(1).

16. *Patents Act 1977* (UK), section 130(1).

17. *Trade Marks Act 1995* (Cth), section 26; *Trade Practices Act 1974* (Cth), section 68.

18. See also the position under copyright law: *Althin CD Medical, Inc. v. West Suburban Kidney Center, S.C.*, 874 F.Supp. 837 (N.D.Ill.,1994).