



Australian Government

Advisory Council on Intellectual Property



Review of the Innovation Patent System

FINAL REPORT

May 2015

The **Advisory Council on Intellectual Property (ACIP)** is an independent body appointed by the Australian Government. ACIP advises the Federal Minister for Industry—and the Parliamentary Secretary to the Minister for Industry—on high level policy matters relating to patents, trade marks, industrial designs and plant breeder’s rights. ACIP also provides advice to the Minister, the Parliamentary Secretary or the Director General of IP Australia on the administration of these intellectual property (IP) rights.

ACIP membership reflects a cross section of the interests involved in the IP system. Members are drawn from the business and manufacturing sectors; research organisations; the health sector; the legal and attorney professions; government; academia; and technology and commercialisation sectors.

IP Australia is the federal agency responsible for administering the patents, trade marks, designs and plant breeder’s rights systems.

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Australian Government
Advisory Council on Intellectual Property

The Hon Ian Macfarlane MP
Minister for Industry
Parliament House
CANBERRA ACT 2600

Dear Minister

In 2011, the then Minister for Innovation, Industry, Science and Research asked the Advisory Council on Intellectual Property (ACIP) to review the innovation patent system. As Chair of ACIP, I am pleased to present you with the report on this review.

The objective of the innovation patent system is to stimulate innovation in Australian SMEs. This is currently achieved by providing Australian businesses with intellectual property rights for their lower level inventions to prevent competitors from copying them. Innovation patents are also intended to reduce the compliance burden on users of the patent system by providing easier, cheaper and quicker rights for inventions.

In preparing this report, ACIP widely circulated an Issues Paper and an Options Paper, and held consultations with interested parties in Melbourne, Sydney and Brisbane. ACIP has explored three options for the innovation patent system – no change, abolition of the system, and change the system.

ACIP tried to fairly assess the value of the innovation patent system to Australian innovators during the course of this review, but the evidence discovered was insufficient to make such an assessment. Consequently, ACIP is unable to make a recommendation supporting the retention or abolition of the current system. However, there is sufficient evidence available to support changing the innovation patent system should the government choose to retain the system. For this reason, ACIP does not support maintaining the status quo because there are valid concerns with the innovation patent system that need to be addressed.

I look forward to the Government's response to the report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jim Butler'.

Jim Butler
Chair
5 May 2014

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Corrigendum

Statement by the Advisory Council on Intellectual Property (ACIP) regarding the Innovation Patent System

One of ACIP's chief considerations in its Review of the Innovation Patent System was how effective the system is in achieving its stated objective of stimulating innovation in Australian small to medium enterprises (SMEs). During the course of the review, ACIP was unable to discover any empirical evidence to enable an assessment of how effectively the system was meeting this objective. Consequently, ACIP did not make a recommendation supporting the retention or abolition of the innovation patent system, but made a number of recommendations aimed at improving its effectiveness.

ACIP presented its final report to the Government in May 2014. Since that time, substantially more information has become available. The Intellectual Property Government Open Data (IPGOD) was published in September 2014 and IP Australia's Office of the Chief Economist has used this dataset to undertake a comprehensive analysis of the economic impact of the innovation patent system (IP Australia Economic Research Paper 05).

A key finding in this research paper is that Australian SMEs are less likely to use the patent system after filing an innovation patent than a company that has not previously filed an innovation patent. This suggests that innovative activity is not being stimulated among these groups by the innovation patent system.

According to the research paper:

The great majority of Australian SMEs and private inventors appear to gain little benefit from the system... Only 23 SMEs have become moderate users of the innovation patent system ... The average SME or private inventor files once and never again (74%), does not receive any enforceable right (83%) and lets their patent expire early because they see its value at less than the \$110-\$220 cost of renewal (78%). (page 2)

Other evidence in the research paper indicates that the costs and benefits of the innovation patent system do not accrue evenly across the users of the system. While 94% of innovation patent applications are made by private inventors or SMEs and they incur 95% of the regulatory costs of the system, larger firms who are already well served by the standard patent system tend to reap a disproportionate share of the benefits.

The report estimates that the private value of innovation patents is of a similar magnitude to the regulatory costs incurred (in the low tens of millions of dollars per annum). ACIP agrees with the finding in the report that the private gains from innovation patents are likely to be offset by the uncertainty costs to consumers and producers. In view of the newly available evidence, ACIP considers that, taking into

account the overall costs and benefits of the system, it is likely to result in a net cost to society.

ACIP has given these findings careful consideration. In light of the information made available by the IPGOD dataset and the analysis presented in this research paper, ACIP is now able to make an assessment of the innovation patent system's effectiveness in stimulating innovation among SMEs. ACIP considers it likely that the innovation patent is not achieving this objective and the Government should therefore consider abolishing the system.

May 2015

Glossary of terms

ACIP	Advisory Council on Intellectual Property
AIPPI	Australian Committee of the International Association for the Protection of Intellectual Property
AUSFTA	Australia-United States Free Trade Agreement
CGK	common general knowledge
FCA	Federal Court of Australia
FCAFC	Full Court of the Federal Court of Australia
FICPI	Australian Federation of Intellectual Property Attorneys
GDP	Gross Domestic Product
HCA	High Court of Australia
IP	intellectual property
IPR	intellectual property rights (e.g. patents, trade marks and designs)
IPRIA	Intellectual Property Research Institute of Australia
IPTA	Institute of Patent and Trade Mark Attorneys of Australia
JPO	Japanese Patent Office
LCA	Intellectual Property Committee of the Business Law Section of the Law Council of Australia
LESANZ	Licensing Executives Society (Australia and New Zealand)
LIV	Law Institute of Victoria
NZIPA	New Zealand Institute of Patent Attorneys Inc
OECD	Organisation for Economic Co-operation and Development
PCT	Patent Cooperation Treaty
R&D	research and development
SIPO	State Intellectual Property Office of the People's Republic of China
SME	small and medium enterprise
TRIPS	World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights
UK IPO	United Kingdom Intellectual Property Office
USPTO	United States Patent and Trademark Office
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Reader's guide

Part A – Key Points

Part A sets out the key points arising from our review.

Part B – Overview and Recommendations

Part B sets out our views, recommendations and the reasons for our recommendations in summary.

Part C – Review of the innovation patent system

Part C sets out our detailed review of the innovation patent system. This part examines the issues and evidence that ACIP considered during the review. It also considers the benefits and disadvantages of various options and discusses the reasons for our recommendations.

Appendices

The appendices provide details about submissions to the review and consultation with stakeholders. They summarise the outcomes of previous Australian reviews touching on the innovation patent system, and include extracts of the relevant parts of the *Patents Act 1990*. They also provide general information about how Australia's main trading partners and the major patenting jurisdictions work with second-tier patent systems such as utility models and petty patents.

Part A – Key Points

ACIP explored three options for the innovation patent system – no change, abolition of the system, and change the system. ACIP has been unable to obtain adequate empirical evidence as to whether the system does or does not stimulate innovation in Australian SMEs.

ACIP is therefore unable to make a recommendation on whether to retain or abolish the innovation patent system. Evidence is available to support changes to the system. If the government chooses to retain the system, then ACIP urges it to consider various recommendations in this report to enhance its effectiveness and to reduce some of the system’s unintended consequences.

ACIP recommends amending the *Patents Act 1990* (Cth) to raise the level of innovation to a level above the current innovative step level, but below the inventive step level that applies to standard patents. A suitable level of innovative step would be provided by the test of inventiveness described by the High Court of Australia in *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd* [1980] HCA 9: (1980) 144 CLR 253; (1980) 29 ALR 29 with a modification to that test to include the current definition of what is relevant CGK. In order to be innovative an invention would need to be non-obvious by reference to CGK either within or outside the patent area but not by reference to prior art information that is not part of CGK at the priority date of the relevant claims of the innovation patent. This would be a lower threshold than is applied to standard patents, where the invention must be non-obvious by reference to the CGK *and* any piece of prior art.

ACIP recommends amending the *Patents Act 1990* (Cth) so that substantive examination must be requested before the third anniversary of the lodgement of an innovation patent. This will allow sufficient time for a patentee to evaluate the commercial potential of their innovation patent before they are called on to commit a reasonable investment in protecting their IPR.

ACIP recommends amending the *Patents Act 1990* (Cth) so that the term ‘patent’ is only used for innovation patents that have been examined and certified. There is a general perception within the broader community that a ‘patent’ has some form of legally-enforceable right. Perhaps the right could be called an ‘innovation application’ up until the time that certification occurs.

ACIP recommends amending the *Patents Act 1990* (Cth) to exclude all methods, all processes and all systems from being patentable inventions for the purposes of an innovation patent. This would better align the innovation patent system with the legal systems of most countries including the large majority of Australia’s major trading partners. It would also address concerns about the effect of innovation patents for methods, processes and systems for implementing what are, in effect, business methods.

ACIP recommends that, subject to the preceding recommendations being accepted, the remedies for infringement of an innovation patent remain unchanged. ACIP considers that the existing remedies are suitable for a future innovation patent given the raised level of innovation and additional excluded subject matters. ACIP also endorses the current practice whereby courts consider exploitation by the patent holder as a key consideration in any application for an injunction.

Part B – Overview and Recommendations

1. Overview

1.1 Background to the review

In recent years a variety of concerns have been raised about the relevance and operation of the innovation patent system. One of the key concerns is that an innovation patent is overly generous given that it has a very low inventiveness threshold but the same remedies against infringement as a standard patent. Another concern is that some applicants are using the innovation patent system to protect higher-level inventions for strategic or tactical purposes rather than trying to protect lower-level inventions.

Yet another concern is that an applicant for a pending standard patent had the opportunity to file as many divisional innovation patents as they wanted up until the point where the limited term of innovation patents prevented further filing. This meant that a person accused of infringement could find themselves initially defending proceedings for infringement of a first patent, and subsequently see the proceedings amended to include one or more innovation patents drafted to address the weaknesses of the first patent that were identified earlier in the proceedings. The consequences of these actions have recently been greatly reduced due to the implementation of the reforms introduced by the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012*.¹ The impacts of these reforms are discussed further in Appendix 7.

Now that the courts have interpreted some of the legislative provisions unique to the innovation patent, it is appropriate to conduct another review of the innovation patent system to assess whether its objectives remain appropriate for Australia today and in the future.

1.2 Terms of Reference

In February 2011, the then Minister for Innovation, Industry, Science and Research requested ACIP to:

Inquire, report and make recommendations to the Australian Government on the effectiveness of the innovation patent system in stimulating innovation by Australian small to medium business enterprises and, if effective, have regard to:

- any new opportunities for enhancing its effectiveness and efficiency; and
- any unintended consequences arising from its implementation.

¹ Available from: <http://www.comlaw.gov.au/Details/C2012A00035>, accessed 16 April 2014.

2. Recommendations

2.1 Recommendation 1:

ACIP is unable to make a recommendation on whether to abolish or retain the innovation patent system in its current form because it has been unable to obtain adequate empirical evidence as to whether the system does or does not stimulate innovation in Australian SMEs. If the government chooses to retain the system, then ACIP recommends that it consider the following recommendations to enhance its effectiveness and to reduce some unintended consequences arising from its implementation.

The objective of the innovation patent system is to stimulate innovation in Australian SMEs.² This is currently achieved by providing Australian businesses with IPRs for their lower level inventions to prevent competitors from copying them. Innovation patents are also intended to reduce the compliance burden on users of the patent system by providing easier, cheaper and quicker rights for inventions.

An innovation patent requires a lower level of innovation than the standard patent and provides an eight-year monopoly and equal remedies to a standard patent. An innovation patent is registered (or granted) after a formalities check and without substantive examination.^{3,4} This registration process provides the patent owner with an IPR that is quick and cheap to obtain, is relatively simple, and provides a sufficient term to encourage investment in developing and marketing the innovation.

An innovation patent owner can only enforce their rights after their patent has undergone substantive examination and been certified. Since there are no enforceable rights until certification and certification is optional and a significant number of innovation patents are not certified, some stakeholders have expressed a view that the innovation patent system reduces the level of certainty within the broader patent system.

During the course of this review, ACIP tried to discover any empirical evidence that addressed the rationale for granting innovation patents that had a very low level of innovation. ACIP questioned whether these patents are a suitable reward for the

² Explanatory Memorandum for the Patents Amendment (Innovation Patents) Bill 2000 (available from: http://www.austlii.edu.au/au/legis/cth/bill_em/papb2000410/), accessed 16 April 2014.

³ A formalities check is a brief review of the innovation patent application to see if the application meets the requirements set out in Regulation 3.2B of the *Patents Regulations 1991*. Firstly, the check ensures that the application complies with all of the administrative requirements for filing an innovation patent. Secondly, the check ensures that the application does not claim subject matter that is non-patentable for an innovation patent.

⁴ A substantive examination is a full and detailed examination of a patent application. During a substantive examination of an innovation patent, a patent examiner assesses whether the invention is fully described in the application, including the best method known to the applicant of performing the invention; the monopoly-conferring claims are clear and agree with the description of the application; the claims are for an invention that can be granted an innovation patent; and the claimed invention is new and involves an innovative step when compared to what is known in that technical area.

investment made by the innovator and whether this innovation would have occurred without the existence of the innovation patent system.

There was no empirical evidence discovered that would allow ACIP to confidently answer these questions.

The submissions received by ACIP in response to the questions in the Issues Paper and the scenarios described in the Options Paper, whilst substantial, did not provide evidence to adequately address the questions. The results of the Verve Economics research study were also scrutinised by ACIP, but unfortunately, this study did not assess the negative effects of innovation patents on innovation in Australia.

As noted previously, the purpose of the patent system is to encourage innovation that would not have otherwise occurred. ACIP has no empirical evidence from the ‘silent’ partners who do not use the innovation patent system or who have been adversely affected by the system.

ACIP is unable to fairly assess the value of the innovation patent system since the costs attributable to the system’s existence are unknown.

Consequently, ACIP is unable to make a recommendation supporting the retention or abolition of the current system.

However, there is sufficient evidence available from the submissions and the Verve study that supports changing the innovation patent system should the government choose to retain it. For this reason, ACIP does not support maintaining the status quo and waiting until the Raising the Bar changes bed down because there are valid concerns with the innovation patent system that need to be addressed.

2.2 Recommendation 2:

Amend the definition of *innovative step* set out in the *Patents Act 1990* (Cth) to raise the level of innovation to a level above the current innovative step level, but below the inventive step level that applies to standard patents. The test for this raised level of innovation should be the test of inventiveness described by the High Court of Australia in *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd* [1980] HCA 9; (1980) 144 CLR 253; (1980) 29 ALR 29 with a modification to that test to include the current definition of what is relevant CGK: i.e. the invention should be non-obvious to a non-inventive skilled worker in the field when compared to the common general knowledge anywhere in the world.

There is a growing awareness that robust, enforceable intellectual property rights (IPRs) create incentives for innovation and contribute substantially to the economy. In Australia, this has provoked debate about the patentability⁵ tests and whether or not these tests allow patents having the same level of innovation as those in other

⁵ Patentability refers to whether or not an invention meets the legal requirements to be granted a patent in a particular jurisdiction; in Australia, an invention must meet the legal requirements of the *Patents Act 1990*.

jurisdictions. This level of innovation goes directly to the idea of the ‘robustness’ of an IP right that can prevail in the marketplace, particularly for Australia, which is a net importer of technology.

As noted in ACIPs Options Paper for this review, several clear themes developed during the course of the review. One of these themes is that the level of innovation is seen as being too low, though no clear indication has developed of how the level can be raised or to what level it should be raised to.

Another theme that developed over the course of the review is that stakeholders desire certainty.

A significant number of stakeholders have supported raising the level of innovation to a level above the current innovative step level, but below the inventive step level that applies to standard patents. The current level, as elaborated in *Delnorth* and subsequent cases, is effectively no more than a novelty test so that any novel invention is eligible for an innovation patent.

There was no consensus within the stakeholders as to what this intermediate level should be. Various suggestions were proposed including using the full test set out by Dixon J in *Griffin v Isaacs*⁶ and using the test described by the High Court of Australia in *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd.*⁷ The intention behind using these prior tests is that the law doesn’t need to be developed and the public will therefore have more certainty.

As an example, the attorney profession—through their professional associations, IPTA and FICPI—advocated for a modified form of the current test that is based on the test set out by Dixon J in *Griffin v Isaacs*. The preferred modification involves comparing the innovation against the prior art to determine any differences and then assessing the differences to determine their contribution to the prior art rather than just to the working of the innovation. Only differences that make a substantial contribution to the prior art would be considered to involve an innovative step. In effect, this modified test would encompass the full test set out by Dixon J, not a reduced test as it currently stands.

ACIP acknowledges the merit behind these submissions. However, ACIP believes that a modified form of the test of inventiveness in the *Patents Act 1952* and described by the High Court of Australia in *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd* would be more appropriate. IPTA suggested this test as an alternative to the *Griffin v Isaacs* test in their submission to IP Australia’s

⁶ *Griffin v Isaacs* (1938) 12AW 169. The test set out by Dixon J dealt with variations from a device previously published. He held that an invention would not be novel where the variations (from the prior art) consisted in matters which made no substantial contribution to the working of the thing or involved no ingenuity or inventive step and the merit if any of the two things, considered as inventions, was the same. The case was decided in the context of the then legislation which did not include a separate test of inventiveness and consequently courts applied a broader concept of novelty than the current test for novelty.

⁷ *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd* [1980] HCA 9; (1980) 144 CLR 253; (1980) 29 ALR 29. The High Court held, in applying the *Patents Act 1952* (Cth), that the test for obviousness in relation to a patent claim is whether it would have been obvious to a non-inventive skilled worker in the field in the light of the common general knowledge in Australia at the time of the priority date of the relevant claim.

Consultation Paper *Innovation Patents – Raising The Step*. The test was used to assess inventive step for a standard patent from 1952 until prior to the introduction of the *Patents Act 1990* and it excluded the use of prior art disclosures not actually proven to be part of the CGK. The modification to that test envisaged by ACIP would broaden the prior art base used to assess innovative step so that it includes the same CGK currently used for assessing standard patents, namely CGK both within and outside the patent area. In an increasingly globalised world with digital communications, a continued reference to CGK within the patent area only would be out of step with current world-wide trends in assessing IP.

The Law Council of Australia also made the point in its submission that insufficient weight was given in the current test to CGK in assessing the contribution of the invention to prior knowledge in the relevant area. Adopting ACIP's proposal would ensure that CGK would play a greater role in assessing innovative step.

The advantages in adopting the test from *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd* are as follows:

- It provides certainty as there have been numerous cases on not only that test but a comparison of that test of inventiveness with higher tests of inventiveness such as those in the *Patents Act 1990*, as amended from time to time. The High Court of Australia decision in *Lockwood v Doric*⁸ nicely demonstrates the distinction by identifying a claim that would be inventive by reference to the pre-1990 test but not by the then applicable post-1990 test and identifying a claim that was inventive by reference to either test. The various post-1990 tests involve considering non-obviousness by comparing the invention with either CGK alone or CGK in combination with some prior art. Which prior art over and beyond CGK was relevant varied according to which post-1990 statutory test was in place at any particular time. The latest test of inventiveness introduced by the Raising the Bar Amendments involves a comparison of the invention with CGK or CGK in combination with any one piece of prior art or pieces of prior art that a person skilled in the relevant art could be reasonably expected to have combined. Consequently, the test of inventiveness for standard patents is at its highest level ever in Australia. ACIP's proposed new test for innovation would be significantly below that level.
- The concept of inventiveness (i.e. non-obviousness) is reasonably easy to understand. A scintilla of inventiveness above the relevant standard is sufficient.⁹ The relevant standard for innovation patents could be CGK (i.e. a scintilla of inventiveness above CGK).
- The concept of 'substantial contribution' that appears in the current legislation has not been assessed by the judiciary in detail because the contribution was

⁸ *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd* [2004] HCA 58.

⁹ *Aktiebolaget Hassle v Alphapharm Pty Ltd* [2002] HCA 59; (2002) 212 CLR 411; (2002) 194 ALR 485.

judged by reference to the contribution to the working of the invention, not to the contribution to either the prior art or a subset of the prior art such as CGK. Retaining that concept but using it to compare prior art with the invention would generate greater uncertainty than the test we propose and move the tests of inventiveness for standard patents and the test of innovation for innovation patents out of step with each other.

- The LCA's submission urged use of CGK in assessing the innovative step. Adopting the pre-1990 standard would do this although not by reference to a concept of 'substantial contribution'.
- There is a clear consensus within the stakeholder community to increase the level of innovation. Adopting this test would satisfy this preference.
- From an examination perspective, there may be clear advantages of having different levels of inventiveness that are closely related but also clearly separated (e.g. non-obvious compared to CGK for innovation patents, and non-obvious compared to CGK together with any piece of prior art as per standard patents).

ACIP has considered other possibilities for the level of innovation. A minority of stakeholders have advocated for the level of innovation to be raised to the inventive step level that applies to standard patents. This proposal was fully explored in the *Raising The Step* consultation performed by IP Australia.¹⁰ The general consensus of respondents to either the ACIP Issues Paper or the *Raising The Step* paper is that raising the level of innovation to inventive step level will act as a disincentive for innovation and R&D. ACIP's view is that if the level is raised to the same as for standard patents, the innovation patent system should be abolished altogether.

Consequently, ACIP recommends amending the definition of *innovative step* set out in subsections 7(4) to 7(6) of the *Patents Act 1990* (Cth) to include a modified form of the test of inventiveness described by the High Court of Australia in *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd* [1980] HCA 9; (1980) 144 CLR 253; (1980) 29 ALR 29. The modification involves inserting the current definition of what is relevant CGK into the test. This amendment will raise the level of innovation to a level above the current innovative step level, but below the inventive step level that applies to standard patents.

2.3 Recommendation 3:

Amend the *Patents Act 1990* (Cth) to provide that a patentee must request examination of the complete specification relating to their innovation patent before the third anniversary of the lodgement of their innovation patent.

¹⁰ See Section 1.6 of Part C of this Report for more information on the *Raising The Step* proposal.

Subsection 44(1) of the Patents Act requires an applicant for a standard patent to request examination of their application within a prescribed period. Subregulation 3.15(1) of the Patents Regulations currently provides that the prescribed period is five years from the date of filing of the complete application. Hence an examination request must be filed for all standard patent applications within this period or the application will lapse.

The innovation patent system has a lower level of innovation than that required of a standard patent. However, there is no provision in the Patents Act that compels an innovation patentee to request examination of their innovation patent at any time within its maximum eight-year term. Since the innovation patent system commenced, only about 18 percent of all innovation patents have been examined, certified and gained enforceable rights.

As noted previously, stakeholders desire certainty in the innovation patent system. Having uncertified innovation patents on the Register of Patents does not give certainty since the scope of the potential monopoly provided by an uncertified innovation patent is unclear.

ACIP recognises that introducing a requirement that all innovation patentees should request certification by a nominated time during the maximum term of an innovation patent in order to maintain the patent is an effective option to provide the stakeholder desire for certainty.

However, ACIP believes that it is important to balance the stakeholder desire for certainty against the additional costs to patentees that would result in introducing a requirement for certification in order to maintain an innovation patent beyond a particular point in time.

The statistics on usage of the innovation patent system show that only 47 percent of innovation patents are renewed at their third anniversary.¹¹ ACIP is of the view that three years is sufficient time for a patentee to properly evaluate the commercial possibilities of their invention before they are called on to commit a reasonable investment in protecting their IPR.

ACIP believes that a scheme where examination may be requested at any time, but not later than the third anniversary of an innovation patent will provide an appropriate balance. ACIP notes that Recommendation 7 of its earlier *Review of the Petty Patent System* made a similar proposal.¹² A number of submissions also support such a proposal.

Therefore, ACIP recommends that the innovation patent system be aligned with the standard patent system in that all innovation patents must have an examination requested within a set time period. ACIP endorses the current practice where examination can be requested by either the applicant for the innovation patent or a third party.

¹¹ See Figure 4 in Chapter 2 of Part C.

¹² Available from <http://www.acip.gov.au/reviews/all-reviews/petty-patent-system/>.

ACIP notes that IP Australia operates as a cost-recovery agency. ACIP recognises that the introduction of a regime that requires examination to be requested before the third anniversary of the lodgement date will involve the use of additional resources by IP Australia. ACIP believes that it is appropriate for innovation patentees, or interested third parties who request certification, to make a contribution to offset IP Australia's costs of supporting these additional resources. ACIP therefore suggests that the Commissioner of Patents imposes a search fee for those innovation patent applications that have not been previously searched. Where the request is made by a third party, then the search fee should be shared between the innovation patentee and the third party.

However, ACIP recognises that imposing a search fee could have a differentially large impact for SMEs and individual applicants. Therefore, ACIP also suggests that if a search fee is to be imposed, IP Australia investigates whether or not a differential pricing policy could be introduced along the lines of the Small Entity Status adopted by the USPTO.¹³

2.4 Recommendation 4:

Amend the *Patents Act 1990* (Cth) so that the term 'innovation patent' is only used for innovation patents that have been examined and certified.

There was widespread acceptance by stakeholders that the public is confused by the name 'innovation patent'. There is a general perception within the broader community that a 'patent' has some form of legally-enforceable right. Unfortunately for innovation patents, this perception is incorrect since an innovation patent has no enforceable rights until after it has been examined and certified. Hence, stakeholders believe that the term 'patent' should not be applied to innovation patents that have not been examined and certified as it is inconsistent with public perceptions.

ACIP notes that similar confusion exists with a provisional application for a patent filed under section 29 of the Patents Act. This later application is colloquially referred to as a 'provisional patent'. A provisional application for a patent does not provide any enforceable rights in its own right and it lapses 12 months after its filing date. Under section 38 of the Patents Act, a complete application for a patent that is filed up to 12 months after a provisional application may be 'associated' with a provisional application and can claim as a priority date the earlier filing date of the provisional application.

Anecdotal comments made at some of the roundtables discussing the Options Paper imply that a significant number of stakeholders do not understand that a provisional patent provides no enforceable rights.

¹³ Under the USPTO Small Entity Status, selected fees are reduced by 50 percent for any inventor, defined non-profit organisation, or small business that satisfies the requirements of the Small Business Act (US).

ACIP agrees with these views on confusion. Perhaps an innovation patent could be called an ‘innovation application’ up until the time that certification occurs. Thereafter, the term ‘innovation patent’ would be entirely appropriate.

2.5 Recommendation 5:

Amend subsections 18(3) and 18(4) of the *Patents Act 1990* (Cth) to provide that, for the purposes of innovation patents, no method, process or system shall be patentable.

ACIP notes that very few nations provide lower level protection (such as utility model protection or innovation patent protection) for methods or processes. Of the developed economies listed in the table in Appendix 5, only France provides such protection but their Certificate of Utility has the same threshold of patentability as a standard patent.

Systems are included in the exclusion because ACIP is concerned that any patent claim to a ‘method’ or a ‘process’ could be rewritten as a claim to a ‘system’. If systems are also excluded, then a patentable invention for an innovation patent will have to be defined in a claim as an apparatus, product, article or some other material thing.

ACIP is of the view that continued protection of methods, processes and systems by way of innovation patents is likely to have a greater cost than benefit for several reasons. First, no other developed economy offers a lower level of patent protection. The protection in question would be limited to Australia and a small number of developing economies¹⁴ and would therefore be of relatively limited value for that reason. Second, as indicated in the Options Paper and the submission of the New Zealand Institute of Patent Attorneys, methods and processes receive some protection from copying as a consequence of the greater difficulty of reverse engineering them as opposed to a product. Third, in many instances patentees may not gain significant benefits from an innovation patent for methods, processes and systems over and above those conferred by trade secrets. It also needs to be remembered that reliance upon trade secrets in this context and the ‘protection’ provided by trade secrets extends internationally whereas publication of the innovation patent would effectively end any prospect of such protection outside of Australia. On balance, ACIP is of the view that continued protection via the innovation patent system for methods and processes would be more likely to hinder rather than encourage innovation in the SME sector.

Finally, submissions received by ACIP have argued and provided cogent evidence that in one important business sector—namely the computer software industry—the effect of patenting methods, processes and systems at the innovation patent level is to significantly undermine innovation in that sector, particularly innovation by SMEs.

¹⁴ Such as Thailand, Malaysia and Vietnam – see Appendix 5.

The patents of concern to some members of the software industry are not for any specific computer program per se or the expression of the program in formal programming language. Rather, they describe some method or algorithm of information processing utilising a computer. The term commonly suggested for this subject matter was 'computational idea patents'. Examples of such patents include methods to store video files using less disc space or methods to calculate the romantic compatibility of two people based on survey questions.

From the submissions received it appears that SME sectors of the software industry operate in a different fashion to more traditional industries. Some of these SMEs gain enormous benefits from mixing and matching ideas from many different software projects and recombining them into something new. The potentially vast number of innovation business method patents makes it nearly impossible for developers to properly search this area for every implemented idea that could possibly be infringed when writing new code. Also, the economics of the software industry is unlike most other industries as the internet allows for effectively zero-cost distribution of software. Consequently, a very large benefit may be conferred on the patent holder by an innovation patent in return for very little benefit to society at large and a considerable cost in terms of lost innovation and competition.

The major investment in such computer programs is in the detail of writing the relevant computer program that implements the algorithm or method in question. This investment is protected by copyright which prevents the reproduction of a substantial part of the particular computer program in question. In contrast, the algorithm or method in question can be and often is created with minimal investment of either time or capital. Hence, the investment of the first person in the field is adequately protected while permitting the very competition that is the focus of discussion in the submissions by the computer software people. Some submissions of the software industry argue that exclusivity of innovation patent protection combined with its lower level of innovative step confers an unnecessary and excessive level of protection that stifles rather than encourages innovation in this industry, especially innovation by SMEs.

Providing protection at the innovation patent level rather than a standard patent level creates difficulties because of the very fast changes in the particular industry. ACIP's recommendation to increase the level of innovation required for innovation patent protection to one measured by reference to CGK is therefore not sufficient to address the problem in this particular industry. The rapid pace at which new ideas for programs are developed means the reliance on CGK as the litmus test for innovation patentability in this area could result in jeopardising rather than encouraging innovation in this area. ACIP accepts the proposition that in this particular industry innovation will occur and is more likely to occur in the absence of protection below the level of standard patent protection that confers exclusive rights regardless of whether any intentional copying has occurred. In other words, innovation would occur in any event in the absence of innovation patents for business methods implemented via a computer.

A number of submissions indicated that innovation patent protection should be provided for every sector of industry or business as a matter of principle. While that principle may be relevant in the context of a standard patent system, ACIP disagrees

that the principle applies in the context of a below-standard patent protection system. The innovation patent is a different system of protection from the standard patent system. The evidence supplied to ACIP in the many submissions on this topic has satisfied ACIP of the need for the exclusion of methods, processes and systems. In addition, an equally compelling principle is that innovation patent law should align with that of Australia's major trading partners. As already indicated, the vast majority of nations do not provide protection at the sub- patent level to any methods or processes.

There is one potential difficulty with the implementation of this recommendation. As pointed out in a number of submissions, it may be possible to draft patent claims that avoid any exclusion. While this possibility cannot be completely discounted, it is also the case that there will always be some uncertainty at the margins of almost every aspect of patent law. For example, there will be and is uncertainty in difficult cases concerning issues such as application of the test of inventiveness, the very definition of manner of manufacture and what constitutes use of a patent for research purposes. The existence of such uncertainty does not justify jettisoning the relevant principle that is subject to such uncertainty. Given the strong arguments for excluding methods, processes and systems from innovation patent protection, the fact that there may be some uncertainty as to the application of an exclusion of methods, processes and systems does not justify declining to create the exclusion.

For these reasons, ACIP recommends that method, process or system subject matters be excluded from patentable inventions for the purpose of an innovation patent.

ACIP disagrees with the views expressed in some submissions that retention of the innovation patent system also limits Australia's legal capacity under international law to exclude certain inventions from patentability under the innovation patent system. Australia's TRIPS obligations in respect of patents are met by its standard patent system. If the position is otherwise and the innovation patent system must also comply with the requirements for patents in TRIPS, then ACIP considers that it would have no choice but to recommend the abolition of the innovation patent system. For example, if TRIPS obligations for patents apply to the innovation patent system then the term of protection for an innovation patent would have to be 20 years. If that were the case, the effect would be that the standard patent system would become irrelevant due to the lower level of innovation that applies to innovation patents.

In addition, if excluding methods and processes from innovation patent protection contravenes TRIPS, then a number of other nations are also in breach of TRIPS. ACIP is not aware of any allegations to that effect having been raised at the WTO.

2.6 Recommendation 6:

ACIP recommends that, subject to the preceding recommendations being accepted, the remedies for infringement of an innovation patent remain unchanged.

ACIP considers that the existing remedies are suitable for a future innovation patent subject to the government retaining the innovation patent system and accepting and

implementing recommendations 2, 3, 4, and 5. This view is based on the fact that a future innovation patent will be required to reach a higher level of innovation before being certified and that only apparatus, articles and other material things can be protected by the patent.

ACIP recognises that there is an expectation within the community that patentees should work or exploit their inventions.

Exploitation should continue to be a key criterion to be considered by a court in granting any injunction. If an innovation patentee is exploiting their certified innovation patent, then it is reasonable that they can obtain an injunction for infringement of their patent. Similar comments apply if the patentee is not yet exploiting their innovation patent, but they can prove an intention to exploit their innovation patent in the near term.

Part C – Review of the innovation patent system

1. Background

1.1 ACIP's inquiry process

The then Minister for Innovation, Industry, Science and Research, Senator the Hon Kim Carr, directed the Advisory Council on Intellectual Property (ACIP) to review the innovation patent system in February 2011. The target audience for the review is Australian small and medium enterprises (SMEs), individual innovators and other users of the innovation patent system. The review was advertised on the ACIP website¹⁵ as well as on the Business Consultation website.¹⁶

ACIP developed an Issues Paper¹⁷ to provoke discussion and solicit relevant comments from stakeholders and other parties interested in the innovation patent system. The Issues Paper was released on the ACIP website in August 2011 with a closing date for submissions of 14 October 2011.

Following the release of the Issues Paper, email notifications were sent to 70 industry associations representing or working with Australian SMEs advising them of the review and inviting them and their members to participate in the review process. Similar emails were also sent to a number of individuals and businesses with a likely interest in the innovation patent system. During the period August-October 2011, a number of IP blog sites, news sites and corporate newsletters advised their readers of the ACIP review and noted the release of the Issues Paper.¹⁸

Thirty-four submissions were received by ACIP from individuals and organisations responding to matters raised in the Issues Paper and/or addressing other matters of interest. ACIP was requested to treat two of these submissions as confidential. Appendix 3.2 provides a list of the individuals or organisations that made a non-confidential submission in response to ACIP's Issues Paper. Half of the submissions (17) were received from workers in the software industry supporting an abolition of computer-related patents—these submissions are mostly silent on other issues.

An ACIP working party also held public roundtable discussions in October 2011 in Melbourne, Brisbane and Sydney to discuss matters raised in the Issues Paper and any other matters relating to the review. A total of 22 stakeholders attended these roundtables (see Appendices 4.4-4.6).

¹⁵ www.acip.gov.au

¹⁶ <https://consultation.business.gov.au/Consultation/>

¹⁷ Available from: <http://www.acip.gov.au/reviews/all-reviews/review-innovation-patent-system/>, accessed 16 April 2014.

¹⁸ Examples of these sites are: itnews (www.itnews.com.au), Managing Intellectual Property (www.managingip.com), ipwars.com (<http://ipwars.com>), Lexology (www.lexology.com), Barnold Law (<http://barnoldlaw.blogspot.com/>), Franke Hyland (<http://frankehyland.blogspot.com/>) and King & Wood Mallesons IP Whiteboard (<http://www.ipwhiteboard.com.au/>).

Several clear themes have developed from the submissions and roundtables as follows:

- The innovation patent system is widely seen as being useful, but it is hard to quantify if it is actually stimulating innovation by Australian SMEs.
- The level of innovation is widely seen as too low, though there is no clear indication of how the level can be raised or to what level it should be raised.
- There are significant concerns regarding the costs for enforcement and the inappropriateness of the remedies give the low level of innovation.

ACIP has considered the submissions received and discussions arising from the roundtables. Appendix 2 of this Report provides some detail on these submissions and discussions.

IP Australia released a consultation paper entitled *Innovation Patents – Raising The Step* on 24 September 2012. This paper proposed a significant increase to the level of innovation to support an innovation patent—raising it from the current level of innovative step to the same inventive step that applies to standard patents. Consultation on IP Australia’s proposal concluded in late 2012 and a total of 30 non-confidential submissions were made. Appendix 1.2 provides a list of the individuals or organisations that made a non-confidential submission in response to IP Australia’s consultation paper.

No legislative changes have followed the *Raising The Step* consultation. Rather, the Government is relying on ACIP’s review of the innovation patent system to inform its deliberations on the innovation patent system.

In late 2013, ACIP released an Options Paper¹⁹ for further public comment. This Options Paper considered the responses received and discussed a number of possible options for action. These options covered the whole gamut of possibilities from abolition of the entire innovation patent system to taking a ‘wait and see’ approach to see how the recent legislative changes bed down.

Following the release of the Options Paper, email notifications were sent to 70 industry associations representing or working with Australian SMEs advising them of the release and inviting them and their members to participate in the review process. Similar emails were also sent to a number of individuals and businesses with a likely interest in the innovation patent system, and to individuals and businesses that made submissions to the earlier Issues Paper.

Sixty-five submissions were received from individuals and organisations responding to matters raised in the Options Paper and/or addressing other matters of interest. ACIP was requested to treat four of these submissions as confidential. Appendix 3.1 provides a list of the individuals or organisations that made a non-confidential submission in response to ACIP’s Options Paper. Just over half of the submissions

¹⁹ Available from: <http://www.acip.gov.au/reviews/all-reviews/review-innovation-patent-system/>, accessed 16 April 2014.

(34) were received from participants in the software industry. Most of these submissions supported an abolition of computer-related patents and were silent on other issues.

An ACIP working party also held public roundtable discussions in September 2013 in Melbourne, Brisbane and Sydney to discuss matters raised in the Options Paper and any other matters relating to the review. A total of 37 stakeholders attended these roundtables (see Appendices 4.1-4.3).

ACIP has considered the submissions received and discussions arising from the roundtables. Appendix 1 of this Report provides some detail on these submissions and discussions.

These additional consultations have confirmed most of the themes developed from the consultations on the Issues Paper, especially that:

- The innovation patent system is widely seen as being useful and should be retained.
- The level of innovation is widely seen as too low, though there is no clear indication of how the level can be raised or to what level it should be raised.
- A significant number of participants in the software industry would like to see software patents excluded from patentable subject matter.

1.2 Role of patents

When the patent system works to its optimum, it maximises the difference between the social value of IP created and used, and the social cost of its creation, including the cost of administering the system.²⁰ This means that the benefits of the patent system (such as public access to information about cutting-edge scientific research and its applications, and access to new and innovative products in the market place) outweigh the costs (resulting from the exclusive right granted to the patent holder for the life of the patent) to the greatest extent. It also means that administrative costs and inefficiencies resulting from the system have been minimised to the extent possible.

There is a growing awareness that robust, enforceable intellectual property rights (IPRs) create incentives for innovation and contribute substantially to the economy. In Australia, this has provoked debate about the patentability²¹ tests and whether or not these tests have the same level of innovation as those in other jurisdictions. This level of innovation goes directly to the idea of the ‘robustness’ of an IP right that can prevail in the marketplace, particularly for Australia, which is a net importer of technology.

Both ACIP and the Australian Law Reform Commission (ALRC) have addressed the level of innovation required in Australian law and made recommendations for ‘raising

²⁰ Intellectual Property and Competition Review Committee, Review of intellectual property legislation under the Competition Principles Agreement, September 2000, p. 22.

²¹ Patentability refers to whether or not an invention meets the legal requirements to be granted a patent in a particular jurisdiction; in Australia, an invention must meet the legal requirements of the *Patents Act 1990*.

the bar’ on the validity of patents granted in Australia. Patentability was also an issue in the government’s response to the *Review of the National Innovation System*, which observed that the degree of inventiveness needed to obtain a patent is lower in Australia than in other countries.²² Similar comments have been made more recently in the report on the McKeon Review *Strategic Review of Health and Medical Research – Better Health through Research*.²³

The Government has recently completed a wide-ranging review of its IP legislation. This review took into account recommendations made by ACIP and the ALRC to reduce barriers that impede researchers and innovators, improve certainty on the validity of granted patents, and allow patent claims to be resolved faster.

The Intellectual Property Laws Amendment (Raising the Bar) Bill 2011²⁴ was introduced into the Senate on 22 June 2011 following extensive consultation. The Bill was passed by Parliament and received Royal Assent on 15 April 2012—becoming the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012*.²⁵ A majority of the changes introduced by the Raising the Bar Act commenced on 15 April 2013.²⁶ These changes will provide greater certainty to Australian inventors on the robustness of their Australian patents and their ability to export their inventions. The changes will also reduce the likelihood of granted rights being disputed and subjected to costly and time-consuming court proceedings. This will benefit Australian innovators who wish to conduct follow-on innovation involving patented technology and who have less freedom to operate where overly broad patents are granted.

1.3 Utility model systems

Utility models have played a significant role in the post-war redevelopment of German and Japanese industry, and in the industrial development of the Republic of Korea and the People’s Republic of China.²⁷ In other countries, utility models usually protect the technical character of a product and they are common in the mechanical, optical and electronic technology fields. This technical character protected by a utility model contrasts with the ornamental function or appearance of a product that is protected under a design right.

One of the key findings of the Verve Economics report *The Economic Value of the Australian Innovation Patent* is that existing research suggests that the economic effect of utility models decreases with the rise of technological capacity in industries

²² Australia, 2009, *Powering Ideas: an innovation agenda for the 21st century*, 2009, <http://www.innovation.gov.au/Innovation/Policy/Pages/PoweringIdeas.aspx>, accessed 21 August 2013.

²³ Available from: <http://www.mckeonreview.org.au/>, accessed 16 April 2014, see pp. 226-228.

²⁴ Available from: <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Fbillhome%2Fs837%22>, accessed 16 April 2014.

²⁵ Available from: <http://www.comlaw.gov.au/Details/C2012A00035>, accessed 16 April 2014.

²⁶ The changes that did not commence on 15 April 2013 relate to a regulatory use exemption from patent infringement for non-pharmaceutical patents, an experimental use exemption and an exemption from copyright infringement for certain patent documents. These changes commenced on 16 April 2012.

²⁷ Kardam K S, *Utility Model – A Tool for Economic and Technological Development: A Case Study of Japan*, available from: http://www.training-jpo.go.jp/en/uploads/text_vtr/ws_pdf/kardam.pdf, accessed 16 April 2014.

and countries.²⁸ However, the continued use of utility models in Japan, Germany, France and Italy suggests that these patents may have a role in innovation and economic growth even in developed economies.²⁹

The innovation patent system in operation in Australia has many similarities with utility model systems in force in many countries—see, for example, Part 2.7 of the Issues Paper and Appendix 3 to this Paper. The major difference between the innovation patent system and utility model systems resides in the remedies for infringement and the exclusions of various technical areas from the system. In Australia, the infringement remedies are identical for innovation patents and standard patents.³⁰ Also, plants and animals, and biological processes for the generation of plants and animals, are excluded from the innovation patent system. An exception to this exclusion exists for microbiological processes and products thereof. A number of countries have similar exclusions for chemical compositions, plants and animals.³¹ Australia is the only developed country that provides this form of protection to processes.

IP Australia's *Raising The Step* proposal was intended to more closely align the innovation patent system with the utility models available in Japan and Germany.³²

1.4 Objectives of the innovation patent system

The need for a utility model to promote, protect and disclose lower level inventions in Australia has been extensively investigated several times over the last 40 years. In the early 1970s, the Designs Law Review Committee (the Franki Committee) found that there was a 'gap' for functional inventions that were not sufficiently inventive to gain patent protection and were not protectable under the designs system.³³ Their recommended solution to this 'gap' was the establishment of a 'petty patent' system and an amendment to the designs system to allow for the protection of 'functional designs'. A petty patent would have the same inventiveness threshold as a standard patent, but would have a maximum term of six years and be easy and inexpensive to obtain. The Government gave effect to some of the recommendations made by the Franki Committee and amended the patents legislation in 1979 to establish the petty

²⁸ Zeitsch J, *The Economic Value of the Australian Innovation Patent: The Australian Innovation Patent Survey*, Verve Economics, March 2013, available from: <http://www.acip.gov.au/reviews/all-reviews/review-innovation-patent-system/>, accessed 16 April 2014.

²⁹ See the comparison of selected utility model systems in Appendix 3 to this Paper.

³⁰ See Subsection 122(1) of the Patents Act which does not distinguish between an innovation patent and a standard patent.

³¹ See, for example, the entries for Japan, Germany and Italy in Appendix 3 to this Paper.

³² See last paragraph of the 'Proposal' on page 1.

³³ The terms of reference for the Franki Committee's review were:

- "To examine the Australian law relating to designs and to recommend any alterations of the law that may be thought desirable.
- To consider and to recommend whether separate legislative provisions should be made in Australia with respect to utility models and, if it so recommends, the provisions this it is thought should be included in that legislation."

In addressing these terms of reference, the Committee developed and issued separate reports for each dot point:

- Designs Law Review Committee, *Report on the Law Relating to Designs – First Term of Reference*, 1973—Parliamentary Paper No. 1, Canberra.
- Designs Law Review Committee, *Report Relating to Utility Models (Second Term of Reference)*, 1973—Parliamentary Paper No. 121, Canberra.

patent system. However, the Government did not amend the designs legislation to establish a functional design system. Hence, the ‘gap’ in promoting, protecting and disclosing lower level inventions continued.

ACIP in its 1995 *Review of the Petty Patent System* recommended a new IP right (an innovation patent) to fill this gap³⁴:

The inventive level for innovation patents should be lower than that for standard patents. The test for this inventive level should be a modified form of the expanded novelty test set out in *Griffin v Isaacs* (1938) 12AW 169. The test would be worded something along the lines of:

- An innovation patent should not be granted if the innovation is not novel;
- If an innovation varies from a previously publicly available article, product or process only in ways which make no substantial contribution to the effect of the product or working of the article or process, then it cannot be considered to be novel.

Subsequently, the Government amended the *Patents Act 1990* (Patents Act) in 2000 to establish the innovation patent system. Subsection 7(4) of the amended Patents Act defined an ‘innovative step’ as follows:

For the purposes of this Act, an invention is to be taken to involve an innovative step when compared with the prior art base unless the invention would, to a person skilled in the relevant art, in the light of the common general knowledge as it existed in the patent area before the priority date of the relevant claim, only vary from the kinds of information set out in subsection (5) in ways that **make no substantial contribution to the working of the invention**. (emphasis added)

Subsection 7(5) of the amended Patents Act identified the kinds of information and provided:

For the purposes of subsection (4), the information is of the following kinds:

- (a) prior art information made publicly available in a single document or through doing a single act;
- (b) prior art information made publicly available in 2 or more related documents, or through doing 2 or more related acts, if the relationship between the documents or acts is such that a person skilled in the relevant art would treat them as a single source of that information.

Hence, the objective of the innovation patent system is to stimulate innovation in Australian SMEs.³⁵ This is currently achieved by providing Australian businesses with IPRs for their lower level inventions to prevent competitors from copying them. Innovation patents were also intended to reduce the compliance burden on users of the patent system by providing easier, cheaper and quicker rights for inventions.

The innovation patent system currently requires a lower level of innovation than the standard patent. An innovation patent is registered (or granted) after a formalities

³⁴ ACIP’s Final Report on its *Review of the Petty Patent System*, pp. 29-32, available from: <http://www.acip.gov.au/reviews/all-reviews/petty-patent-system/>, accessed 16 April 2014.

³⁵ Explanatory Memorandum for the Patents Amendment (Innovation Patents) Bill 2000 (available from: http://www.austlii.edu.au/au/legis/cth/bill_em/papb2000410/), accessed 16 April 2014.

check and without substantive examination.^{36,37} This registration process provides the patent owner with an IPR that is quick and cheap to obtain, is relatively simple, and lasts for a sufficient time (eight years) to encourage investment in developing and marketing the innovation. However, an innovation patent owner can only enforce their rights after their patent has undergone substantive examination and been certified.

Since there are no enforceable rights until certification, the innovation patent system reduces the level of certainty within the broader patent system. The Raising the Bar Act includes a number of initiatives to strengthen the requirements for the granting of standard patents and to confirm that a patent should only be granted when it involves a truly inventive step. The innovation patent system provides an eight-year monopoly for ‘innovations’ that have a very low level of innovation, even if they are obvious.³⁸ It also provides the same remedies as those provided for standard patents. Hence it is arguable that the innovation patent system as it currently stands is inconsistent with the intentions of the Raising the Bar Act to provide greater certainty to Australian inventors.

To address this inconsistency, IP Australia proposed in its *Raising The Step* consultation raising the level of innovation for the innovation patent system from innovative step to the same inventive step level that applies for standard patents.³⁹ To date, no legislative changes have followed this consultation process and the Government is awaiting on ACIP’s review of the innovation patent system to inform its deliberations on the innovation patent system.

1.5 Innovation Patent process

Typically, an innovator wishing to protect their innovation by obtaining an innovation patent will follow at least some of the steps in the process set out in Figure 1. About 85 percent of innovation patents are not certified and hence, have only had a formality check prior to grant. These granted innovation patents do not have enforceable rights.

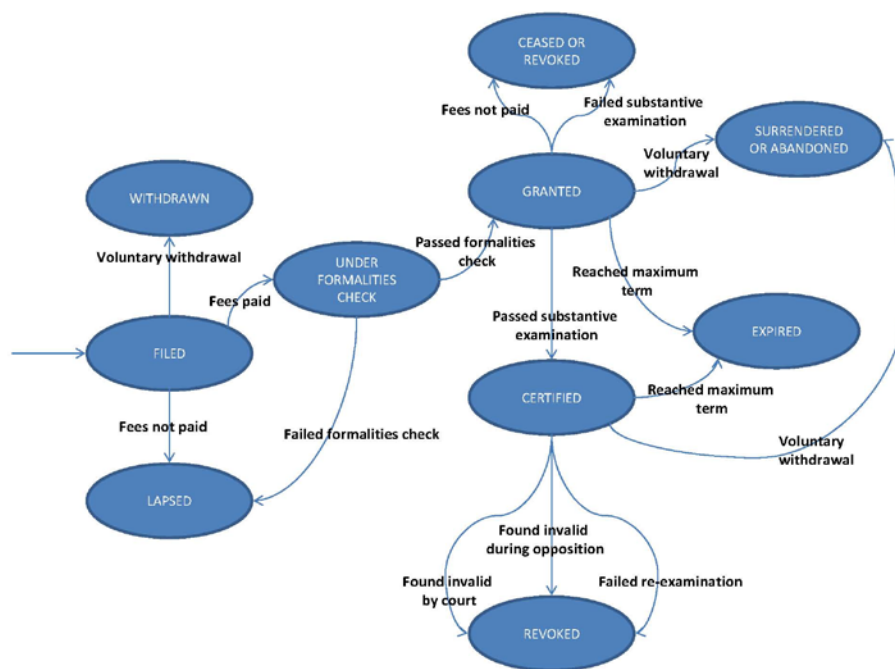
Figure 1: Innovation Process

³⁶ A formalities check is a brief review of the innovation patent application to see if the application meets the requirements set out in Regulation 3.2B of the *Patents Regulations 1991*. Firstly, the check ensures that the application complies with all of the administrative requirements for filing an innovation patent. Secondly, the check ensures that the application does not claim subject matter that is non-patentable for an innovation patent.

³⁷ A substantive examination is a full and detailed examination of a patent application. During a substantive examination of an innovation patent, a patent examiner assesses whether the invention is fully described in the application, including the best method known to the applicant of performing the invention; the monopoly-conferring claims are clear and agree with the description of the application; the claims are for an invention that can be granted an innovation patent; and the claimed invention is new and involves an innovative step when compared to what is known in that technical area.

³⁸ *Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225 (Delnorth) at [53].

³⁹ See *Innovation Patents – Raising The Step*.



1.6 ‘Raising The Step’ proposal

As mentioned in earlier, IP Australia released a consultation paper entitled *Innovation Patents – Raising The Step* on 24 September 2012. This paper proposed a significant increase to the level of innovation for innovation patents—raising it from the current level of innovative step to the same inventive step that applies to standard patents. The rationale behind this proposal was a perceived risk of the innovation patent system being used in ways that would lead to undue costs to users of the patent system.

Consultation on this proposal concluded in late 2012 and a total of 30 non-confidential submissions were made. Appendix 3.3 provides a list of the individuals or organisations that made a non-confidential submission in response to IP Australia’s consultation paper.

ACIP has reviewed the non-confidential submissions. Of these submissions, 17 submissions were against the proposal, 11 were in favour of the proposal and two submissions did not address the issue of raising the level of innovation. Only five of the submissions were made by SMEs, whilst IP professionals (e.g. patent attorneys and lawyers) made 14 of the submissions.

Eleven of the submissions suggested that there should be no changes to the innovation patent system whilst ACIP is separately reviewing the system—seven of these stated that the proposal undermines support for Australian SMEs. In total, there were 11 submissions stating that the proposal undermines support for Australian SMEs. Eight of the submissions believe that the current level of innovation is appropriate. All four submissions from the health sector supported the proposal to raise the level of innovation to inventive step.

1.7 Area of uncertainty

The aim of the patents system is to promote innovation, and innovation benefits the community by creating new and improved technology that meet social needs.⁴⁰

When ACIP commenced the review of the innovation patent system in 2011, ACIP was not able to discover any economic analysis of the innovation patent system which could assist in evaluating options that might be available to enhance the effectiveness and efficiency of the system. Whilst many analyses had been completed by this time, these analyses are not empiric, very limited in scope and they extrapolate economic impacts based on surveys of material published in journals and working papers.

Verve Economics was therefore commissioned to conduct a research study to try to determine how effective the innovation patent system is in stimulating innovation by Australian SMEs. This study found that the weighted average value placed by inventors on their own innovation patents was approximately \$895,000. However, any negative effects of innovation patents on innovation protected by standard patents, and other forms of protection, were not assessed in the study. It is thus not possible using the results of this study to calculate the net effects of innovation patents on Australia's level of innovation.

⁴⁰ This is a widely held view in Australia and elsewhere – see, for example, the discussion on the economic benefits of the patent system in Chapter 2 of the ALRC report, *Genes and Ingenuity: Gene patenting and human health* (ALRC 99), 30 August 2004, (available from <http://www.alrc.gov.au/publications/report-99>), accessed 16 April 2014.

2. Innovation patent system

2.1 Use of the system

This section provides a snap-shot of the use made of the innovation patent system during the first 13 years of its life. The annual data is not comprehensively analysed and a variety of figures illustrate usage trends that have developed over this period.

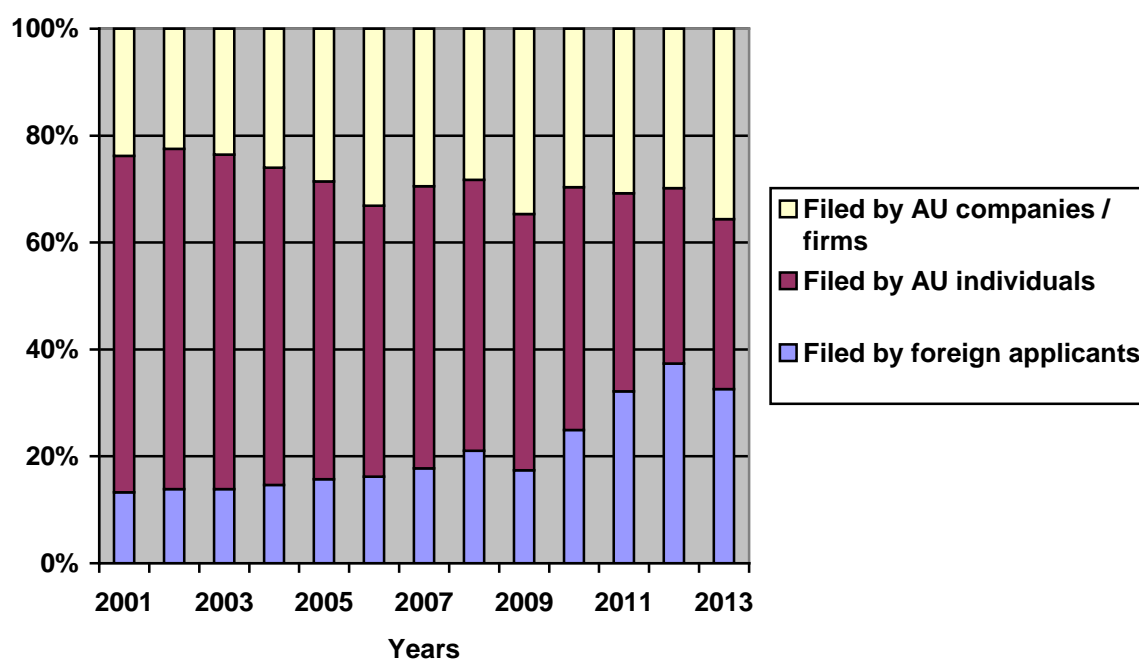
2.1.1 Filings and certifications

There have been 15,170 innovation patents filed from the inception of the innovation patent system in 2001 until 31 December 2013. Over this period, on average, 23 percent of these patents were filed by foreign applicants, 47 percent by Australian individuals and 30 percent by Australian companies or firms.

Figure 2 shows the annual percentage breakdown of innovation patents that have been filed over the period. As can be seen, the proportion filed by Australian individuals has been decreasing since 2003 and has rapidly diminished since 2009. The proportion of innovation patents filed by Australian companies/firms has been generally steady since 2004 at about 30 percent.

Generally, the increase in filings by foreign applicants since 2005 has more than offset the decrease in filings by Australian individuals. It is arguable that the decision given in the *Delnorth* case has contributed to a growth in foreign filings as awareness has grown about the relative strength of innovation patents within the Australian marketplace. It is too early to say if the drop in foreign filings in 2013 is the start of a new trend or merely a blip as occurred in 2009.

Figure 2: Comparison of innovation patents filed each year



Over the same 2001-13 period, there have been 4,025 requests for examination received and 2,867 of these innovation patents were certified following substantive examination. This indicates that about 27 percent of all innovation patents are examined and about 71 percent of those examined are certified. In other words, almost 19 percent of all filed innovation patents are examined, certified and gain enforceable rights.

These certified patents have over 1,600 different patentees which implies that most patentees own only a single certified patent. Over the 2001-13 period, on average, 25 percent of these patents were certified to foreign applicants, 35 percent to Australian individuals and 40 percent to Australian companies or firms. Companies or firms made up the majority of patentees owning certified innovation patents.

Figure 3: Comparison of innovation patents certified each year

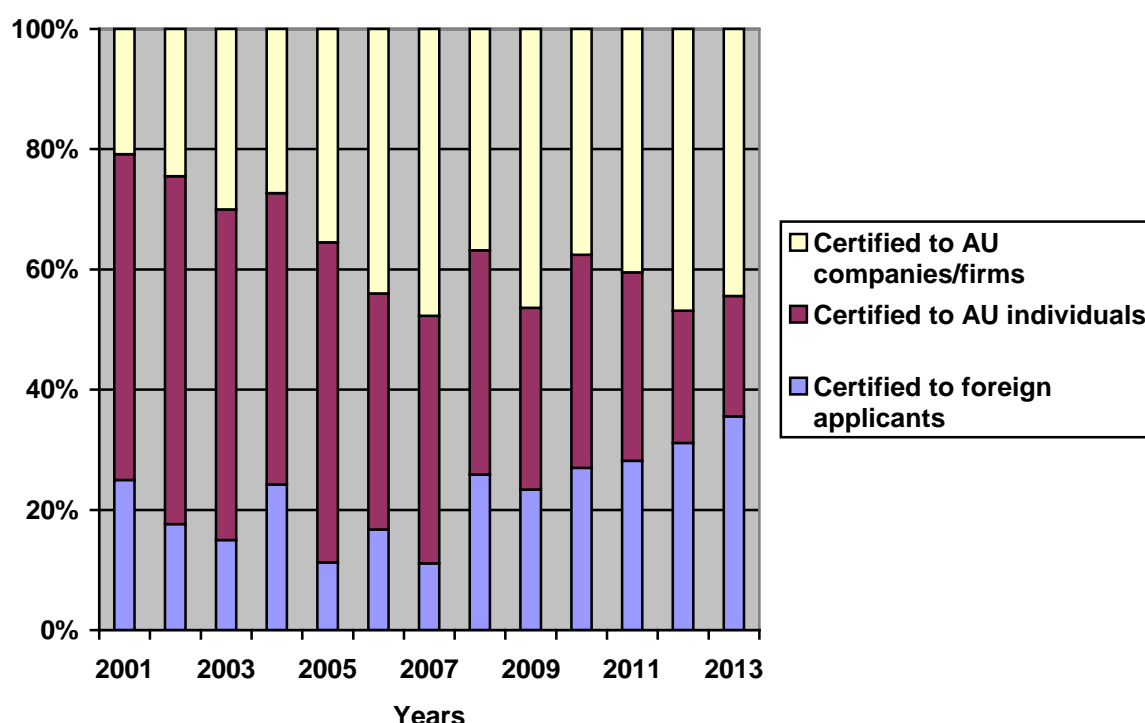


Figure 3 shows the average percentage breakdown of certified innovation patents. As can be seen, since 2006, there have been more Australian businesses gaining certification than Australian individuals. This situation is the reverse of that which existed in the years prior to 2006. The proportion of foreign patentees gaining certification has been generally steady since 2008 at about 29 percent—this being well above the long-term average of 25 percent for this category of patentee. The recent increase in foreign certifications has compensated for the reduction in certifications made to Australian individuals whose proportion has dropped to 28 percent over this period—well down on their long-term average of 35 percent.

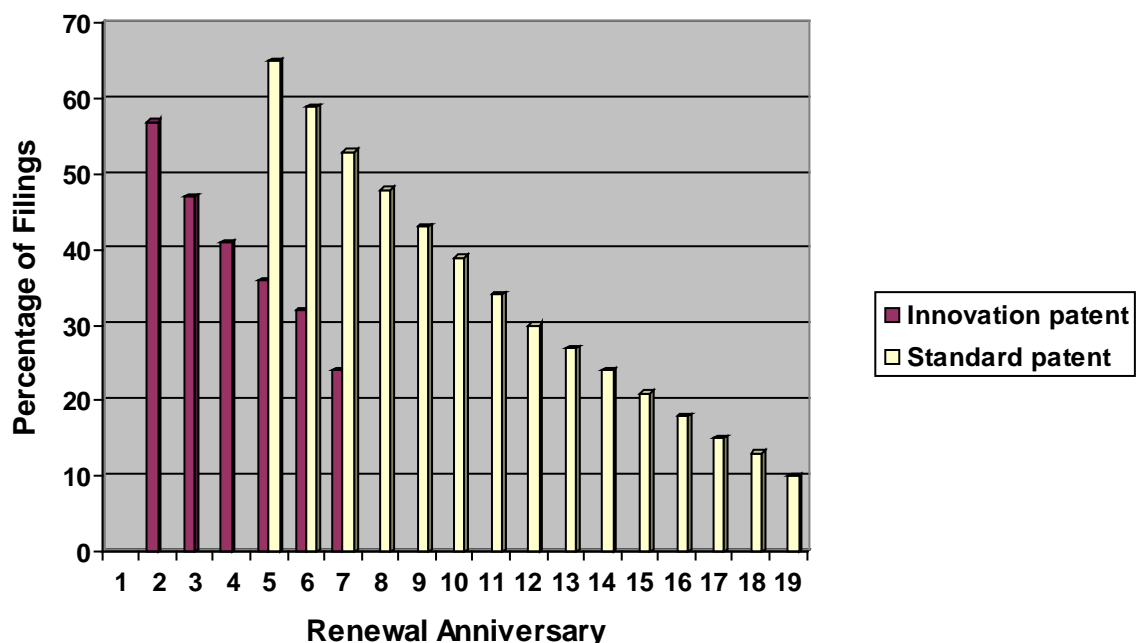
2.1.2 Renewals of innovation patents

Figure 4 shows the average percentage of renewals of innovation patents and standard patents as a function of the respective number of patents filed. Renewal fees for innovation patents are not due until the second anniversary of the filing date (i.e. the

first renewal fee is due two years after the filing date of the application).⁴¹ Renewal fees then fall due on an annual basis until the seventh anniversary of the filing date. Innovation patents expire on the eighth anniversary of the filing date—if they have not already ceased prior to this date. There were changes to the renewals process for standard patents introduced in July 2012.⁴² Hence, the renewal data for innovation patents in Figure 4 covers the period 2001-2011 and excludes renewals made under the new process.

For standard patents, renewal fees have typically been due from the fifth anniversary, but this changed on 1 July 2012 when the first renewal fee will be due on the fourth anniversary.⁴³ Figure 4 captures renewal data over the period 1989-2006 for standard patents from the fifth anniversary onwards. For most standard patents, the last renewal fee is due on the 19th anniversary.

Figure 4: Propensity to renew patents (as a percentage of the original number of filings)



As can be seen from Figure 4, on average, only 54 percent of innovation patents are renewed at their second anniversary date and only 47 percent are renewed at their third anniversary date. Consequently, over half of all innovation patents that are granted have ceased at three years after their filing date. This is comparable with the situation for standard patents where it takes eight years for the number of renewals to fall below 50 percent.

⁴¹ See Fee Item 212 of Part 2 of Schedule 7 to the Patents Regulations 1991.

⁴² An additional renewal fee was introduced, payable on the fourth anniversary of the filing date (see Fee Item 211 of Part 2 of Schedule 7 to the Patents Regulations 1991).

⁴³ See Fee Item 211 of Part 2 of Schedule 7 to the Patents Regulations 1991.

Furthermore, less than a quarter of all granted innovation patents (24 percent) are renewed at their seventh (and last) anniversary. Perhaps most of these renewals are for certified innovation patents since, on average, only about 18 percent of innovation patents are certified. For standard patents, it takes 14 years for the number of renewals to fall below 25 percent, and only 10 percent of standard patents are renewed at their 19th (and last) year.

The attrition rates for innovation patents and standard patents are comparable in that the graphs for both types of patents trend downwards at about five percent per year. This could imply that applicants are using the respective patent systems in similar ways.

2.1.3 Technology

Figure 5 shows snap-shots of the broad technology groupings for innovation patents filed in the years 2001, 2006 and 2011. These technology groupings relate to the International Patent Classification (IPC).⁴⁴ The IPC is a hierarchical classification system primarily used to classify and sort patent documents (patent applications, specifications of granted patents, utility models, etc.) according to the technical fields that they relate to. There are presently about 70,000 different classification marks covering all areas of human endeavour.

As shown in Figure 5, consumer goods and equipment has had a consistently large number of applications filed in each sampled year. Similar comments apply for the transport and the civil engineering, building and mining technology groupings.

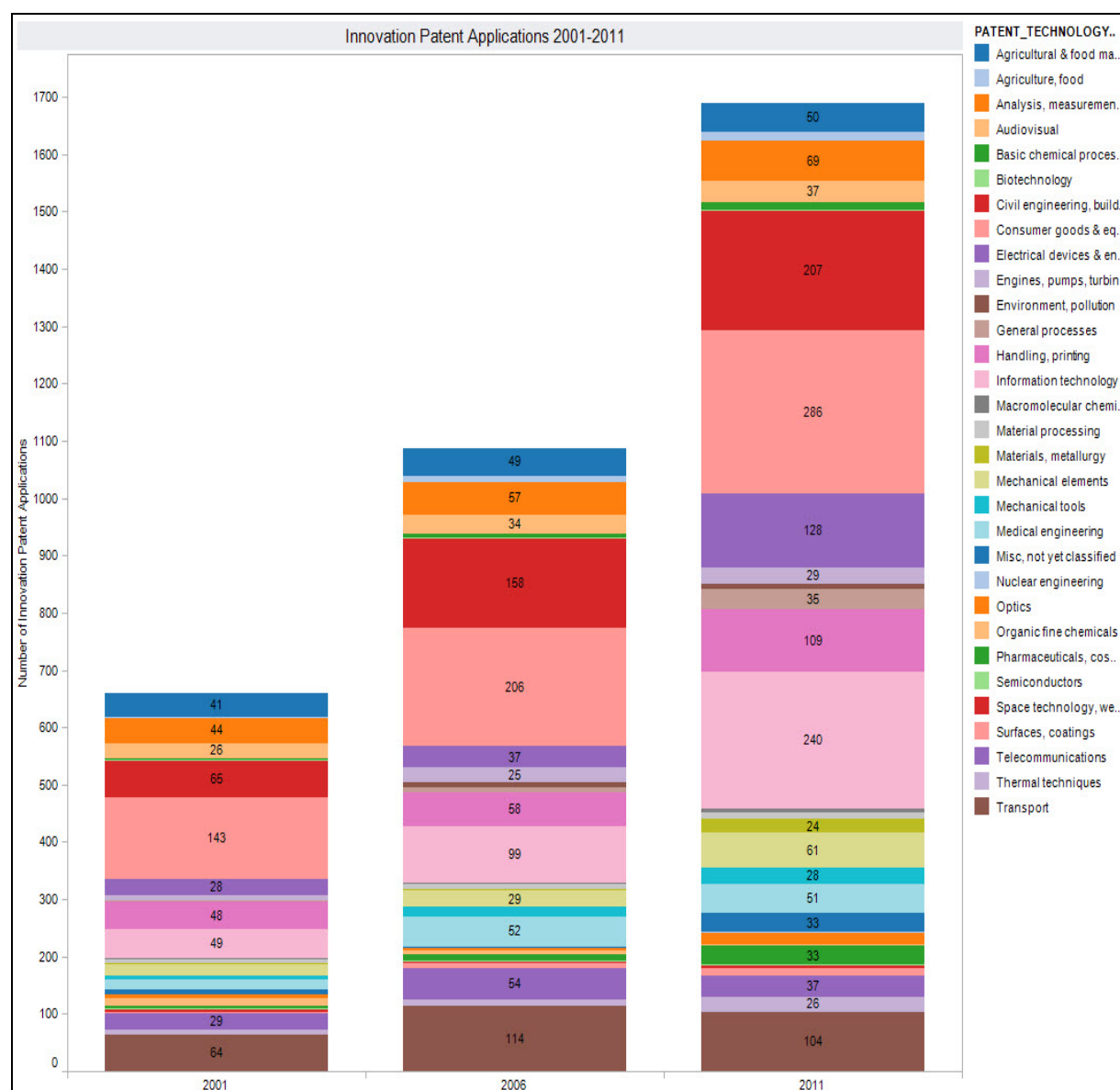
The snap-shots show a significant rise in applications within the categories of electrical devices and engineering, information technology, and handling and printing technology. Whilst it is conceivable that some of the applications in these technologies might be directed to lower level inventions, sampling of these applications indicates that a significant number of innovation patents are directed to technologies that would be more appropriately protected by an application for a standard patent.

Whilst there are several technology groupings that have had very few applications across the period, there are no technology groups that have witnessed a significant reduction in applications across the period.

Appendix 6 provides the break-down of numbers within each technology grouping for all innovation patents filed each year in the period 1 January 2001 to 31 December 2012.

⁴⁴ See <http://www.wipo.int/classifications/ipc/en/> for more information on the IPC, accessed 16 April 2014.

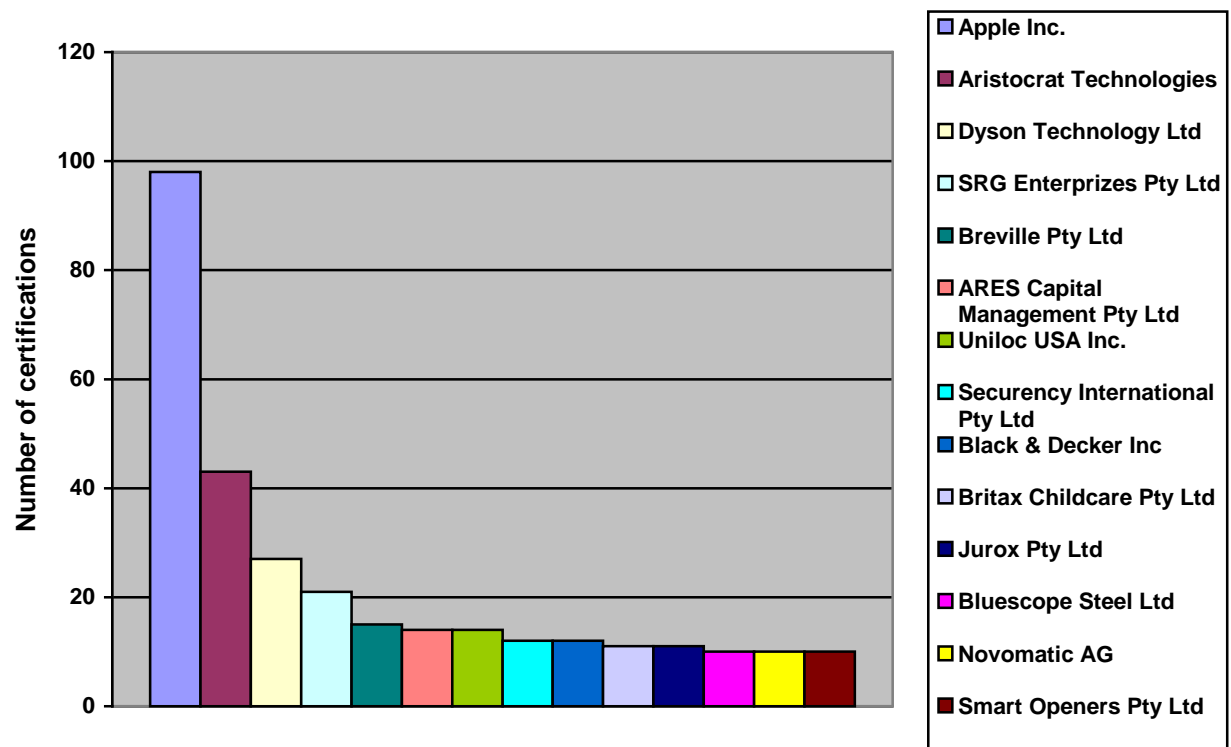
Figure 5: Technology Groupings for Innovation Patents Filed in 2001, 2006 and 2011



2.1.4 Portfolios of certified innovation patents

As at 31 August 2012, there were 60 patentees who had portfolios of five or more certified innovation patents. Fourteen of these patentees are what could be termed 'large users' in that each large user has a portfolio of at least 10 certified patents (see Figure 6). All 14 of these large users are companies—some of them large multinationals such as Apple Inc and Black & Decker Inc. There were 595 certified innovation patents in the combined portfolios of these 60 patentees. Consequently, 26 percent of all certified innovation patents were owned by only five percent of the total number of patentees.

Figure 6: Large users of the innovation patent system*



* The figures are for the period from 2001 to 31 August 2012.

An overwhelming majority of individual innovation patentees are occasional users of the system. Only seven individuals had portfolios of at least five certified innovation patents. Five of these individuals are Australian residents with the other two patentees residing in the United States or Taiwan. One of the five Australian individuals exclusively used the services of a patent attorney in prosecuting their innovation patents. This contrasts with three of the five Australians who dealt with IP Australia directly and did not use the services of a patent attorney.

Focusing on the largest users of certified innovation patents, Figure 6 shows the patentees that, over the period 2001 to 31 August 2012, accumulated at least 10 certified innovation patents. The combined portfolios of these 14 companies represented just over 13 percent of all innovation patents certified over this period. As can be seen, Apple Inc's portfolio of 98 certified innovation patents is over twice the size of the next largest portfolio (Aristocrat Technologies with 43 patents). Only five of the 14 companies listed (Apple, Dyson, Uniloc, Black & Decker and Novomatic) are headquartered outside of Australia. The number of patents in the combined portfolios of the nine Australian companies (147 patents) is just over 90 percent of the combined portfolios of the five foreign companies (161 patents).

Furthermore, most of these companies appear to be patenting technologies that could be protected under a standard patent since:

- Apple specialises in consumer electronics which are categorised in the information technology or telecommunications categories
- Aristocrat, SRG Enterprizes and Novomatic specialise gaming systems which are categorised as information technology

- Dyson specialises in vacuum cleaners which are categorised as consumer goods and equipment
- Breville specialises in kitchen appliances which are categorised as consumer goods and equipment
- ARES specialises in real estate financing systems which are categorised as information technology
- Uniloc specialises in device recognition software which is mainly categorised in the information technology and telecommunications categories
- Securency specialises in polymer-based banknote substrates which are mainly categorised in the optics or handling, printing categories
- Black & Decker specialises in power tools and garden tools which are categorised in the mechanical tools or consumer goods and equipment categories
- Britax specialises in child car seats, strollers, prams and nursery products which are categorised as transport
- Jurox specialises in veterinary pharmaceutical products which are categorised in the medical engineering, chemical processing or pharmaceuticals categories
- Bluescope specialises in building products and metal supplies which are mainly categorised in civil engineering, building and mining
- Smart Openers specialise in automatic door and gate openers which are mainly categorised in civil engineering, building and mining.

Apple filed 95 innovation patents during 2006-2011—nearly half of them in 2008. All but 28 of these innovation patents were in the information technology grouping and, as shown in Table 1, 87 of these innovation patents had been certified by the end of 2011. Apple is the biggest single user of the innovation patent system and owns about six percent of all innovation patents certified since 2006.

Table 1 shows the distribution of innovation patents certified annually by large users. The certification activity by Apple, Aristocrat, SRG Enterprizes, Breville and Britax was negligible in the period 2001-2006, but increased in 2006-2007 and rapidly escalated post-2007. Also there is a noticeable lack of recent activity by Black & Decker and Novomatic whose last certifications occurred in 2006. These certification patterns contrast with those of Dyson and Jurox who have been steady users of the system over the period—except for 2011 when Dyson had 20 innovation patents certified.

Looking further at the certification trends since 2007, Apple and Dyson have had respective certification ‘spikes’ in 2008 (42 certifications) and 2011 (20 certifications). Apple also had 10 patents certified in 2007, 16 certified in 2009, 14 certified in 2011 and yet another 11 certified up to 31 August 2012. Seventy-nine of Apple’s innovation patents have been certified after September 2008. Aristocrat and Uniloc are the only other patentees with 10 or more innovation patents certified in a single year.

Table 1 Annual certifications of innovation patents for large users

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Apple Inc	0	0	0	0	0	0	10	42	16	5	14	11
Aristocrat Technologies	2	1	0	0	0	2	9	11	5	0	2	11
Dyson Technology Ltd	0	0	1	0	0	6	0	0	1	2	20	1
SRG Enterprizes Pty Ltd	0	0	0	0	0	3	7	7	4	0	0	0
Breville Pty Ltd	0	0	0	0	0	0	0	2	5	7	1	0
Ares Capital Management Pty Ltd	0	0	0	0	6	2	2	4	0	0	0	0
Uniloc USA Inc	0	0	0	0	0	0	0	0	0	0	2	12
Securency International Pty Ltd	0	0	0	0	0	0	0	0	0	0	5	7
Black & Decker Inc	0	0	1	8	1	0	2	0	0	0	0	0
Britax Childcare Pty Ltd	0	0	0	0	1	0	2	0	7	1	1	0
Jurox Pty Ltd	0	0	2	1	1	3	1	1	0	0	0	2
Bluescope Steel Ltd	0	0	0	0	1	0	0	0	1	0	4	4
Novomatic AG	0	1	1	4	3	1	0	0	0	0	0	0
Smart Openers Pty Ltd	0	0	0	0	0	0	0	1	2	1	3	3

* The figures for 2012 are for the period from 1 January to 31 August.

The distribution of innovation patents certified annually by large companies increased noticeably after the Federal Court of Australia’s (FCA) decision on *Delnorth* was issued in August 2008. This initial decision—and the decision of the appeal that issued in July 2009⁴⁵—were the first court decisions that dealt with the crucial concept of innovative step following contested argument.

The *Delnorth* decisions concerned three innovation patents for an invention for a “Roadside Post”. Delnorth alleged that Dura-Post had infringed these innovation patents. In response Dura-Post made a cross-claim of invalidity of the innovation patents. Dura-Post argued unsuccessfully that the inventions described in the innovation patents involved no innovative step, because the claims in each of the patents contained a “slightly re-ordered arrangement of features for a roadside post made of sheet spring steel”.

⁴⁵ Dura-Post (Aust) Pty Ltd v Delnorth Pty Ltd [2009] FCAFC 81 (Delnorth appeal).

In his judgement in *Delnorth*, at paragraphs 52 and 53, Justice Gyles stated:

The first step is to compare the invention as claimed in each claim with the prior art base and determine the difference or differences.

and

...where the point of differentiation does contribute to the working of the invention, then it is entitled to protection, whether or not (even if), it is obvious.

The patentability threshold for innovation patents was always intended to be set lower than the threshold for standard patents. However, the *Delnorth* and *Delnorth appeal* decisions clarified that the innovative step threshold is much lower than was anticipated by the designers of the system. In particular, the *Delnorth* decision has made it clear that an ‘innovative step’ allows even obvious enhancements to be patented. Whether this is good for the Australian economy as a whole is a key question.

It is clear from Figure 6 and Table 1 that certified innovation patents are now a key part of some company’s IP portfolios.

2.1.5 Strategic uses

There is evidence that the innovation patent system is being used strategically by some applicants—although the Verve report indicates that this is done by a comparatively low proportion of applicants.⁴⁶ It has been argued that the low innovative step threshold makes it easier for applicants to obtain innovation patents in order to:

- extend the effective term of the monopoly of a successful invention—Known as ‘evergreening’, this is done by filing an innovation patent application when the term of the standard patent is about to expire. The invention covered by the innovation patent application differs from the standard patent by only an innovative step. Opponents of this practice argue that the patent owner has protection for virtually the same invention for a further 8 years. This cannot be the case because the technology in the expired patent becomes available for use by third parties and the innovation patent must relate to a novel and innovative invention to be patentable. This practice would seem to be consistent with the original policy intent discussed earlier in Part 2.4. There is no evidence of evergreening in the strict sense of extending the effective term of a monopoly provided by an expired patent actually occurring
- increase the time and expense involved for opponents who oppose a standard patent by building a ‘patent thicket’ around a successful invention This is done by filing multiple innovation patents—including divisional innovation patents—for minor variants of the main invention, all with slightly different wording. The opponent then needs to challenge each of these innovation patents as well as the original standard patent. In addition, the ‘thicket’ makes it difficult for competitors to know whether they are likely to infringe a patent if they enter this sector of the market.
- target an alleged infringer of a granted standard patent

⁴⁶ See Chart 19 of the Verve report *supra*.

This is done by filing a divisional innovation patent application of a standard patent application that focuses on technology disclosed in the standard patent specification that has been taken by an alleged infringer. The divisional innovation patent will have the same priority date as the standard patent application and will enable the alleged infringer to be caught. The drafting of the claims of the divisional innovation patent application can be based on details of an alleged infringement that become available after the standard patent application was filed, for example during patent infringement proceedings for a standard patent.

A recent case that demonstrates this strategy is the legal dispute between Britax Childcare Pty Ltd and Infa-Secure Pty Ltd.⁴⁷ This case relates to nine innovation patents and one standard patent owned by Britax concerning child safety seats—including the tethering and connection means for such seats. Each of the innovation patents is divided out of Britax’s earlier standard application. Britax submitted that Infa had made various modifications to its products in an endeavour to escape from the monopoly permitted to Britax based on the standard application. Some of the innovation patents and claims within those innovation patents were specifically drafted to catch alleged infringing Infa products and to bring those products before the Court.⁴⁸

Other recent cases relating to the innovation patent system are the ongoing legal disputes in Australia between Samsung Electronics Co. Limited (Samsung) and Apple Inc.⁴⁹

ACIP anticipates that any proposal to raise the level of the innovative step required for innovation patents will make some of these strategies less attractive. However, these changes will only have a significant impact on the 25 percent of patentees who seek certification of their innovation patent—they will not alter the fact that unexamined innovation patents covering obvious enhancements will continue to be placed on the Register of Patents. These ‘obvious’ patents will persist on the Register until such time as they lapse, expire or are revoked following substantive examination.

2.1.6 Divisional innovation patents

Divisional innovation patents may, in some circumstances, reach back in time and be infringed before they have been filed. An example of this is found in another Britax case, wherein Justice Middleton found that an innovation patent may be infringed from its effective filing date.⁵⁰ For a divisional innovation patent, this effective date is the date of filing of the original patent application which may be some years earlier than the filing date of the divisional innovation patent.

ACIP investigated the portfolios of certified innovation patents held by the big users shown in Figure 6. For one of the patentees, nearly 90 percent of these innovation

⁴⁷ See *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd* [2012] FCA 467.

⁴⁸ *ibid.*, at [27].

⁴⁹ See *Apple Inc. v Samsung Electronics Co. Limited* [2011] FCA 1164 and the follow-on appeal *Samsung Electronics Co. Limited v Apple Inc.* [2011] FCAFC 156.

⁵⁰ *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd* [No 3] [2012] FCA 1019.

patents are divisional applications of standard patents. In a number of instances, patentees had created a patent ‘family’ centred on a standard patent, with one or more standard patent divisional ‘children’ and several divisional innovation patents that are ‘sisters’ of the standard divisionals. All of the patents in each family are often sealed or certified. The end effect of these actions is that a patent ‘thicket’ is created which appears to shield the parent patent.

The certified divisional innovation patents from different patent families were sampled to see if they could be part of any strategic use of the system. This sampling reviewed the certified claims, the granted claims and the examination reports issued by IP Australia for both the innovation patent and the parent application. In this way it was hoped to determine if the claimed invention which was the subject of the certified innovation patent related to a low level invention or a high level invention.

The outcome of the sampling process was inconclusive. In five instances, the claimed invention was deemed to be a low level invention since similar claims were filed in the parent application but they were rejected as lacking an inventive step and subsequently deleted from that application—this is an appropriate use of the innovation patent system. Four instances were deemed to be for high level inventions as almost identical claims were present in both the certified innovation patent and the parent application at acceptance. In two instances, there was insufficient information to determine whether the invention claimed in the certified innovation patent was of a high level or low level. In these two cases, the invention had not been claimed in the parent application—and thus not examined—and there was no innovative step objection raised by the patent examiner during substantive examination.

Ten of Britax’s 11 certified innovation patents are sister divisionals. These 10 patents were divided from a standard patent application as discussed in Part 2.1.5. As mentioned earlier, it was accepted by the Court that some of the claims within these Britax innovation patents were specifically drafted to catch alleged infringing products and to bring those products before the Court.

Amongst the remaining large users of certified innovation patents, Dyson also has divisional innovation patents in its portfolio. However, these divisionals seem to have been filed to overcome difficulties that arose during examination of their parent applications.

The *Intellectual Property Amendment (Raising the Bar) Act 2012* addresses some of the strategic uses of divisional innovation patent applications, by:

- limiting the opportunity to file an innovation divisional patent of a standard patent to within three months after the advertisement of acceptance of the patent application.⁵¹ Previously divisionals could be filed up until grant of the standard patent, which could be many years if the patent is opposed. This will reduce the filing of divisionals to delay an opposition process, or to target alleged infringers; and

⁵¹ See p. 75 of the Explanatory Memorandum *supra*.

- requiring the details of the earlier application to be provided, so that opponents can keep track of all the patent applications relating to a particular invention.⁵²

These measures do not address all the strategic uses of innovation patents that are described above.

The low standard of patentability for an innovation patent makes it extremely difficult for a defendant to invalidate an innovation patent. This situation contrasts with standard patents as the Raising the Bar Act raises the threshold of the inventive step required to a level that aligns Australia's law with that of its major trading partners. The innovation patent system therefore seems inconsistent with the intentions of the Raising the Bar Act.

⁵² *ibid.*

3. Options considered

NOTE: This Chapter is a summary of material that was explored in ACIP's Options Paper. Not all of these matters have resulted in formal recommendations.

Figure 7 Evaluation framework

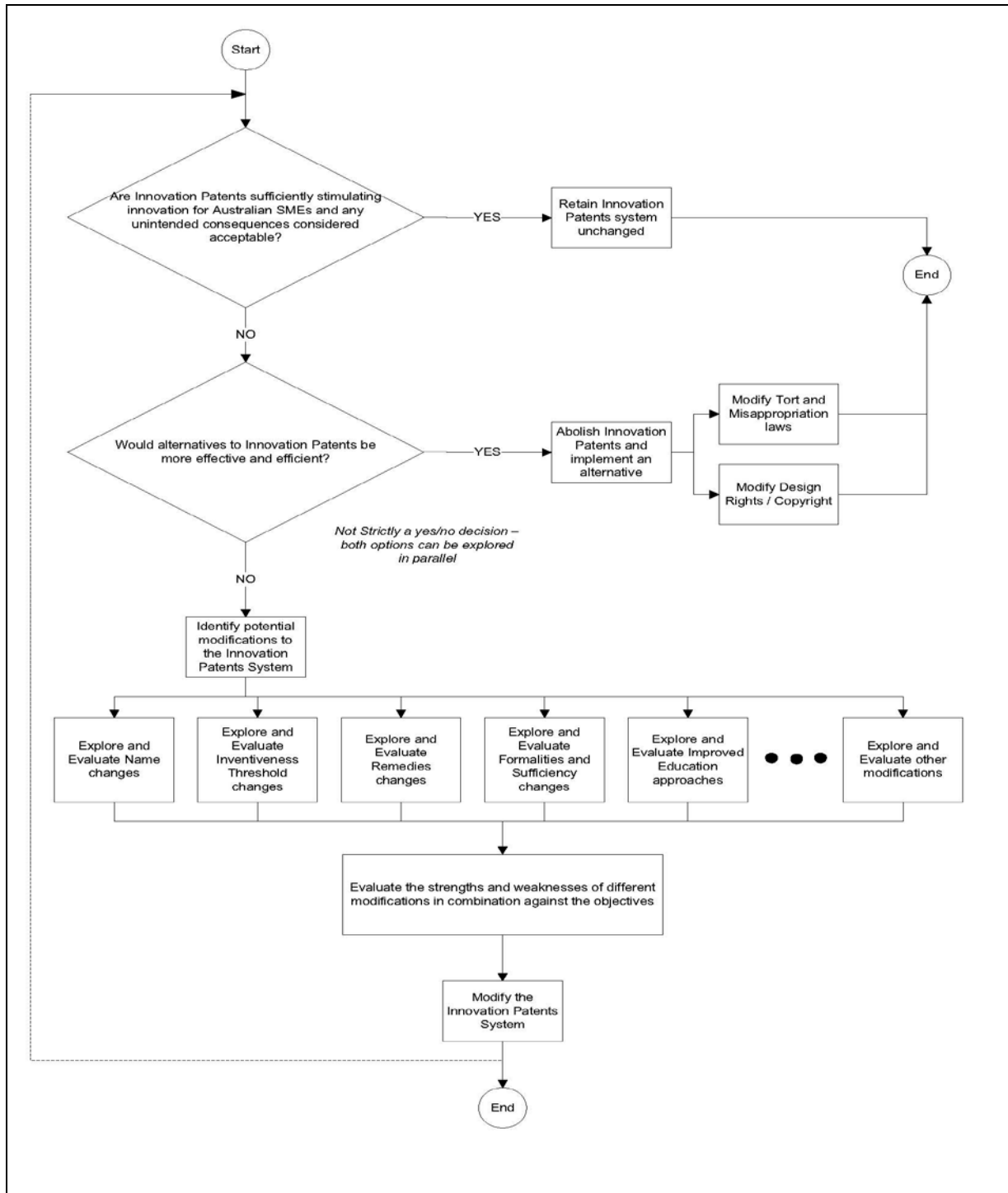


Figure 7 maps out the evaluation framework followed by ACIP in assessing the various possible options for the innovation patent system.

Some 12 years after its implementation, there is now a body of case law and some certainty on how the innovation patent system actually works—especially regarding innovative step requirements.⁵³ The respective consultations by ACIP and IP Australia have both found a general consensus that the system is not without its problems. However, whilst it has been difficult to engage SMEs in any of the consultation processes, this stakeholder group has proven to be (by a significant factor) the most ardent of supporters for the current system.

ACIP, IP Australia and Verve Economics have asked some important questions about whether the system is satisfying the original policy objectives of supporting Australian SMEs in their efforts to commercialise lower-level inventions. The responses to ACIP's questions and IP Australia's *Raising The Step* proposal are discussed in Appendix 2 of this Paper.

3.1 Policy issues

A fundamental issue that needs to be addressed is what, precisely, is the objective of an innovation patent scheme. If the objective is solely or primarily the protection of Australian SMEs that invest in incremental technological developments where each incremental step falls short of the test of non-obviousness, consideration might be given to a scheme which only provides protection for Australian industry.⁵⁴ On the other hand, doing so may lead to a focus on the Australian domestic market because the relevant technological development may well not receive protection in any other market. In that regard, consideration might, at the very least, be given to excluding from the innovation patent system those areas of technology which are excluded by other nations. Doing so would mean that an incremental advance that is the basis of an innovation patent in Australia may also have some potential in those other nations via their sub-patent systems.

There may be a case for encouraging Australian industry to seek to make larger technological improvements that meet the level of innovation and qualify for standard patent protection worldwide given the relatively small size of the Australian market. In addition, the protectionist nature of such a scheme may be at odds with the general approach to such measures of Australian Governments over some years. One effect of such an approach would obviously be an increase in the price paid in Australia for the use of such incremental technological developments. Nevertheless, if the objective is protection of Australian industry that option should be considered.

If the protection to be conferred is to be conferred on all as it currently is, there is no guarantee that in the long run Australian SMEs will be the primary beneficiaries of such protection. The trend in certification suggests that overseas companies are beginning to take increasing advantage of the innovation patent system. Some very large companies have done so in respect of some complex products (e.g. Apple and Dyson). In those circumstances, it may be difficult to identify the market failure that an innovation patent is addressing. Which incremental technological developments

⁵³ See, for example, the decisions in *Delnorth* and *Delnorth appeal* referred to previously in Part 3.

⁵⁴ The submission by Mr Des Ryan AM implies that this was the primary reasoning behind ACIP's recommendations in its *Review of the Petty Patent System*.

will not occur if protection is not given via a level of innovation approach as opposed to a level of invention approach? Alternatively, which of such developments will not be worked in Australia as a consequence of a lack of protection at the sub-patent level? On the other hand, if other incremental technological developments are stymied by innovation patents and those developments that do receive an innovation patent would have occurred in any event without the grant of such protection, the Australian economy would be incurring costs without obtaining any significant countervailing benefit.

3.2 International Treaty obligations

The considerations above and below assume that neither the existing innovation patent provisions nor any of those considered as options will contravene international treaty obligations, particularly the TRIPS Agreement. The standard patent system complies with those obligations. A separate sub-patent system such as the innovation patent system is very arguably not subject to TRIPS requirements. For example, the European Union's sui generis database right is accorded to individuals and companies of the European Union only and national treatment is not accorded to the owners of databases from outside the European Union.⁵⁵

If an innovation patent scheme is a similar sui generis scheme, it could also not be subject to national treatment requirements. A similar situation appears to apply in respect of the Australia-US Free Trade Agreement (AUSFTA).⁵⁶ On the other hand, the Paris Convention refers to utility models and seems to require national treatment for them. The relevant Paris Conventions are then incorporated into TRIPS. Consequently, if the innovation patent system were characterised as a utility model system, national treatment obligations would probably apply.

There is no obligation under the TRIPS Agreement to have a utility model or innovation patent system at all.

3.3 Options

ACIP believes that there are 3 options for the innovation patent system, and these are discussed below as options A, B, and C.

3.4 Option A – No change

The Raising the Bar Act has made substantial changes to the legislation supporting the innovation patent system as outlined briefly in Appendix 7. It is reasonable to see how these changes interact and bed down before making any more changes to the system. If the innovation patent system is changed again in the immediate future, then it will not be easy to predict how these new changes will interact with those in the Raising the Bar Act. Hence, it will be difficult to determine the collective impact that these new changes might have on the system.

⁵⁵ More information on the European Union's Directive on the legal protection of Databases is available from: http://ec.europa.eu/internal_market/copyright/prot-databases/index_en.htm, accessed 16 April 2014.

⁵⁶ See article 6 of the intellectual property section of the AUSFTA agreement available from: <http://www.dfat.gov.au/fta/ausfta/final-text/index.html>, accessed 16 April 2014.

The March 2013 report on *The Economic Value of the Australian Innovation Patent* by Verve Economics assessed the potential economic aspects of the innovation patent system.⁵⁷ Part of this assessment was done via a survey of 3,195 Australian inventors who had protected their innovations with innovation patents. A total of 517 surveys were returned which is a response rate of about 16.2 percent. Only 10 percent of the respondents were large firms (firms with 200 plus full-time employees), whilst 45 percent of the respondents were individuals. The remaining respondents were SMEs broken down into 16 percent small firms (5-20 full-time employees) and 30 percent medium firms (21-200 full-time employees).⁵⁸ Also, nearly 37 percent of the respondents identified themselves as operating in the manufacturing sector.

While not all of the comments received portrayed the innovation patent positively, the majority of comments portrayed innovation patents in a positive light. The comments also showed that inventors mainly use innovation patents for traditional purposes and the use of innovation patents adds value to their firms. This study also found that the weighted average value placed by inventors on each of their innovation patents was approximately \$895,000—a not inconsiderable valuation, though perhaps not a fully credible valuation due to the fact that it was self-assessed.

As noted in Part 2.3, the objective of the innovation patent system is to stimulate innovation in Australian small and medium enterprises (SMEs). The Verve survey has shown that individuals and SME user-groups appear to be generally satisfied with the innovation patent system—albeit this survey occurring prior to the full impacts of the Raising the Bar Act being felt by users of the system.

3.5 Option **Option B – Abolish the innovation patent system**

3.5.1 Issues that support abolition

There are a number of issues relating to the innovation patent system that support the abolition of the system in Australia. These issues are as follows:

- The system is under-utilised—only about 300 innovation patents are certified each year from about 1,400 innovation patents that are granted—clearly most innovation patentees do not seek certification. Also, there are about 26,000

⁵⁷ This report was commissioned by IP Australia to support the current ACIP review and to provide background data for IP Australia's separate consultation on *Innovation Patents – Raising The Step*. A copy of the Verve report is available from: <http://www.acip.gov.au/reviews/all-reviews/review-innovation-patent-system/>. The Verve report focussed on three broad components:

- a review of data on the use of innovation patents
- a review of available empirical and theoretical studies of the economic effects of innovation patents and other “second tier” forms of intellectual property protection; and
- the design and execution of the survey.

Some of the key findings of the Verve study were:

- SMEs and individuals account for approximately 90 percent of innovation patent filings.
- The main reasons that inventors used innovation patents were to protect their invention and to enhance the reputation of their firm. There is only minor use of innovation patents for strategic reasons such as building a patent thicket.
- The faster grant time and lower cost of innovation patents were the main reasons inventors preferred innovation patents over standard patents. The lower inventive threshold of innovation patents was the least important reason for their use by inventors.

⁵⁸ The survey response data sums to 101 percent due to rounding errors as noted in Chart 13 of the Verve report.

complete patent applications filed each year in Australia—granted innovation patents represent only about five percent of this total.

- The system is not achieving its intended goals or policy outcomes (e.g. the large portfolios of certified innovation patents held by large companies and the large number of granted divisional innovation patents with standard patent parents).⁵⁹
- Case law indicates that sophisticated users are strategically using the system with no quantifiable benefits flowing to the public.⁶⁰
- Interest groups (e.g. innovation patentees, patent attorneys and lawyers) agree that the system stimulates innovation but there is no reliable and quantifiable evidence available to corroborate this view.
- The system creates uncertainty and increases legal costs because of the very low inventive threshold and the fact that an innovation patent doesn't need to be certified (and once certified, is very difficult to revoke).
- There is a perception that a lot of 'poor' quality, uncertified innovation patents are being granted and put on the Register of Patents. These granted patents are 'devaluing' Australia's patent system.
- The United Kingdom (UK) has looked into utility models and rejected them due to increased uncertainty and legal costs.⁶¹
- There are alternative ways to protect lower level innovations (e.g. designs law or competition law).
- The innovation patent system is unique to Australia and very few of our major trading partners have utility models. Hence, the innovation patent system does not encourage Australian innovators to focus on international opportunities.

3.5.2 Issues that contradict abolition

There are also a number of issues that contradict any proposal to abolish the innovation patent system in Australia. These issues are as follows:

- If the system is abolished, sole inventors/self-filers and SMEs might be discouraged from entering the patent system because the inventive threshold for a standard patent is too high and the standard patent system is seen as being too difficult to navigate without expensive professional help.
- Innovation patents are a form of personal property—they are an asset and can be used to obtain funding.
- Higher level inventors who fail to satisfy the level of innovation for a standard patent can still get some protection/reward for their commercially-valuable innovations if they convert their standard application to an innovation patent.
- Even allowing for the Verve report, there is a lack of credible information available on how SMEs are using the system—abolishing the system might remove IP protection that is really useful to SMEs.

⁵⁹ Granted divisional innovation patents with standard patent parents represent about 14 percent of the total granted innovation patents in 2010.

⁶⁰ The *Durapost* cases, the *Britax* case and the ongoing patent disputes between Apple Inc and Samsung Electronics Co. Limited provide examples of the system being used strategically.

⁶¹ See paragraphs 4.109-4.113 of the Gowers Review of Intellectual Property, available from: <http://www.official-documents.gov.uk/document/other/0118404830/0118404830.pdf>, accessed 16 April 2014.

- Abolishing the innovation patent system will re-establish the ‘gap’ between the designs system and the patents system that was first identified by the Franki Committee and endorsed by ACIP in their *Review of the Petty Patent System*.⁶²
- It is arguable that the public mischief caused by having uncertified innovation patents on the Register of Patents may not be as great as is popularly made out since more than half of all innovation patents cease within three years of their date of filing.⁶³

3.5.3 Replace the innovation patent system

It may be possible to replace the innovation patent system with an alternative system for protecting low-level inventions. Both the Franki Committee⁶⁴ and Uma Suthersanen have investigated options for doing this.⁶⁵

In paragraph 42 of its *Report on the Law Relating to Designs – First Term of Reference*, the Franki Committee recommended that any new designs legislation should contain the following definition of design:

“Design” means features of shape, configuration, pattern or ornament applicable to an article, being features which in the finished article can be judged by the eye of the Court, but does not include a method or principle of construction.

At paragraph 45 of this report, the Committee elaborated on this definition in the following terms:

We feel that protection should be available on as broad a basis as practicable and, provided that the ordinary requirements of the community and industry are not unreasonably impeded, we can see no real reason why all features of shape or configuration, whether they serve a purely functional purpose or not, should not come within the definition of design. We do not propose that the function itself should be capable of protection by way of the designs legislation but simply that function should be no bar to the registration of particular features of shape or configuration as a design provided that the design is new or original and otherwise registrable.

The Committee also recommended in paragraph 45 that the legislation should contain the following provision:

An application for the registration of a design shall not be refused nor shall a registered design be invalid on the ground that the design consists of or includes features of shape or configuration that serve only a functional purpose.

The Australian Government did not endorse the Franki Committee’s recommendation in this regard. The designs legislation was not amended to include a functional design, though other recommendations relating to the petty patent system were implemented. Suthersanen suggests that ‘subpatentable’ inventions can be protected by fitting such products into existing IP categories—such as under the designs system.⁶⁶ She believes that this can be achieved by changing the designs legislation to allow for the

⁶² This ‘gap’ was discussed in Part 2.3.

⁶³ See Figure 4 and the discussion of attrition rate in Part 3.1.2.

⁶⁴ See the brief discussions in Part 2.3.

⁶⁵ Suthersanen U., *Utility Models and Innovation in Developing Countries*, UNCTAD-ICTSD Project on IPRs and Sustainable Development, February 2006, (available from: http://unctad.org/en/docs/iteipc20066_en.pdf), accessed 16 April 2014.

⁶⁶ *ibid.*, at pp. 28-35.

protection of a ‘functional design’ as presently exists in the UK. Under subsection 1C(1) of the current UK Designs Act, a right in a registered design ‘shall not subsist in features of appearance of a product which are solely dictated by the product’s technical function’.⁶⁷ This UK definition contrasts with the definition of a design under Australian law wherein a design, ‘in relation to a product, means the overall appearance of the product resulting from one or more visual features of the product’.⁶⁸ As can be seen, there is some flexibility for ‘functionality’ under the UK legislation which is absent from the Australian legislation.

Many countries and jurisdictions have a general unfair competition law which is based on fault or wrongdoing. As an alternative to protection under designs legislation, Suthersanen also suggests changes to competition law to protect ‘subpatentable’ inventions.⁶⁹ This suggestion is based on the creation of an anti-copying right or a misappropriation tort.

However, such an approach has been rejected by the Australian courts. In *Moorgate Tobacco*, Deane J. of the High Court of Australia said⁷⁰:

The rejection of a general action for “unfair competition” involves no more than a recognition of the fact that the existence of such an action is inconsistent with the established limits of the traditional and statutory causes of action which are available to a trader in respect of damage caused or threatened by a competitor. Those limits, which define the boundary between the area of legal or equitable restraint and protection and the area of untrammelled competition, increasingly reflect what the responsible Parliament or Parliaments have determined to be the appropriate balance between competing claims and policies.

Gibbs C.J., Mason, Wilson and Dawson JJ agreed with these conclusions.

3.6 Option C – Change the innovation patent system

3.6.1 Recent changes

There have recently been significant changes to the innovation patent system due to the final implementation of the Raising the Bar Act on 15 April 2013. An overview of these changes can be found in Appendix 7. In summary, these changes can be collated into four broad subject areas as follows:

- *Changes to divisional applications*
Section 79C has been amended so that the deadline for filing a divisional innovation patent is three months after advertisement of acceptance of the earlier application (where the earlier patent is a standard patent) or no later than one month after the advertisement of certification of the parent patent (where the earlier patent is an innovation patent). This amendment will prevent applicants strategically filing divisional innovation patents during court or opposition proceedings, as happened, for example, in the Delnorth case.

⁶⁷ Registered Designs Act 1949 (UK) (c.88), (available from: <http://www.ipo.gov.uk/pro-types/pro-design/d-law/d-law-actrules/d-law-actrules-act.htm>), accessed 16 April 2014.

⁶⁸ See the definition of *design* in s.5 of the *Designs Act 2003*, (available from: <http://www.comlaw.gov.au/Details/C2013C00156>), accessed 16 April 2014.

⁶⁹ Suthersanen *supra*, at pp. 28-35.

⁷⁰ *Moorgate Tobacco Co Ltd v Phillip Morris Ltd* [1984] HCA 73; (1984) 156 CLR 414 (22 November 1984) at [40].

- *Sufficiency*
There have been various amendments made that have tightened up on the disclosure requirements for an innovation patent specification—especially those relating to subsections 40(2) and 40(3). Whilst these amendments have no bearing on whether an innovation patent is granted, they have made it more difficult for an innovation patent to get certified—especially for self-filing and self-prosecuting applicants who often file specifications with a minimal disclosure of their innovation.
- *Inventiveness threshold (usefulness, common general knowledge, public information)*
There has been an increase in the inventiveness level applicable to innovation patents due to the removal of the geographical restriction on CGK used for assessing whether a difference over the prior art involves no substantial contribution to the working of the invention. However, it may take another 24-36 months for these amendments to ‘bed down’ and enable an estimation of the quantum of the increase.
- *‘Balance of probabilities’ test*
The ‘balance of probabilities’ test only applies to questions of fact and is most relevant for determining questions of novelty or innovative step.⁷¹ It requires examiners of patents to weigh up all of the material before them and decide, on balance, whether an objection is more likely than not to be applicable. Another way of viewing the balance of probabilities is to ask whether the objection is highly plausible, more probable than not, or *prima facie* reasonable in the context of the material being considered. Questions of law are not subject to assessment by the balance of probabilities test.

3.6.2 Raise the level of innovation

As stated earlier in this Paper, ACIP has found general agreement that the current level of innovation is too low. ACIP is not surprised by this finding since the innovation patent system provides protection for very small differences that would not, of their own accord, sustain an inventive step. However, there is no agreement within the stakeholder group as to what is an appropriate level of innovation.

Stakeholder suggestions include having a test of ‘not clearly obvious’ although it is difficult to see how a Federal Court judge would be able to distinguish between what is obvious but not clearly obvious.⁷² The LCA, FICPI and IPTA suggest a test of assessing the substantial contribution in question against the relevant prior art so that the substantial contribution would have to make a substantial contribution to the working of the prior art. It is not entirely clear how this would differ in practice from the existing test.

⁷¹ Patent Examiner’s Manual – National, Section 2.13.5.2A – Balance of Probabilities, IP Australia, (available from: http://docstore.aiipo.gov.au/intranet/docstore/technical_communications/Patent_Examiners_Manual/WebHelpFullVersion/Patent_Examiners_Manual.htm), accessed 16 April 2014.

⁷² This is apparently a problem that the ACIP Working Party that conducted the *Review of the Petty Patent System* wrestled with. The submission to the *Raising The Step* proposal by Mr Des Ryan AM, the Chair of that Working Party casts more light on this issue and ACIP’s difficulties in balancing the level of protection against the level of innovation for their proposed innovation patent system.

Regarding the LCA submission, they are suggesting that a test be developed that addresses the perceived issues arising out of the *Delnorth* decision but which remains less onerous than the inventive step requirement. They believe that this could be achieved by amending subsection 7(4) of the Patents Act to permit direct reference to the CGK alone or in combination with any one of the kinds of information set out in subsection 7(5).⁷³

Another alternative test suggested by IPTA is to apply the test of inventiveness applicable under the *Patents Act 1952* so that the level of innovation would be by reference to what would be obvious having regard to CGK in Australia. This test may have an advantage since it has been the subject of previous case law and there may be some certainty associated with it. On the other hand, current practices relating to the quick retrieval and use of digital information may generate difficulties in distinguishing between what is generally known and what information can be very readily converted into what is known.

A proposal to raise the level of innovation to the inventive step level has been thoroughly consulted on by IP Australia with its *Raising The Step* proposal. A majority of the submissions to this proposal did not endorse the change. The general consensus of respondents to either the ACIP Issues Paper or the *Raising The Step* paper is that raising the level of innovation to inventive step level will act as a disincentive for innovation and R&D. A common thought was that such a change will effectively render the system entirely impotent.⁷⁴

ACIP has spent considerable time wrestling with this issue. If the level of innovation is raised to the 'inventive step' level, then the innovation patent system is rendered ineffective and it might as well be abolished. If the level of innovation is raised to an intermediate level, then it is difficult to conceive of a suitable test that will be easily understood by users, IP professionals, patent examiners and the courts. In any event, history has shown that it may take a decade or more for the legislative provisions defining the new level of innovation to be tested in the courts. In the interim there will be some uncertainty as to required level of innovation.

With these options in mind, ACIP invites further stakeholder comment on their preferred option for the level of innovation and how this option will make the innovation patent system more robust.

3.6.3 Reduce remedies

It is widely accepted that IP enforcement costs are high. As noted in Part 4.4, nearly half of all comments and submissions made to ACIP were related to relief from infringement. There was widespread agreement in these comments/submissions that the remedies available to an innovation patentee are not appropriate given the low level of innovation required to pass the innovative step threshold. However, a number of stakeholders had opposing views. Whilst they agree that enforcement costs are

⁷³ See Part 2.4 for more information on subsections 7(4) and 7(5).

⁷⁴ See, for example, the submissions by Armour IP, Delnorth Pty Ltd, FICPI, IPTA, the Law Society of Western Australia and Telstra.

high, they also believe that reducing the remedies (e.g. by removing injunctive relief—the most common form of remedy sought) would reduce the attractiveness of innovation patent system. It might also drive undesirable behaviours.

A possible solution to this conundrum could be to remove the possibility of seeking injunctive relief from those innovation patents that are not being commercially exploited. Alternatively, the term of injunctive relief could be reduced by an amount equal to the delay in seeking certification. Both options give encouragement to innovation patentees to use their patents and undesirable behaviours—such as delaying infringement actions for as long as possible to maximise the value of any possible compensation—are discouraged.

3.6.4 Limit the monopoly

An alternative to raising the level of innovation might be to limit or restrict the monopoly of an innovation patent to a single embodiment. This single embodiment would only be protected to the extent that it was actually disclosed or illustrated in the innovation patent specification as originally filed. No alternative constructions, mechanical equivalents, or other variations would be protected.

If such a proposal is implemented, it will have a beneficial impact on reducing the uncertainty inherent to the innovation patent system. The major issue identified by some stakeholders underlying these concerns about uncertainty is that the vast majority of innovation patents are never examined. Hence, the exact extent of the monopoly that may potentially be protected by these innovation patents is uncertain. If the monopoly is restricted to a single embodiment fully disclosed in the specification, then an interested party can better predict the extent of the potential monopoly and make a more informed commercial decision based on this prediction.

3.6.5 Change processes – formalities check, compulsory certification

ACIP has considered changing the processes for granting an innovation patent—specifically, ensuring that each innovation patent application has at least one claim prior to it proceeding to grant. Also considered was a proposal for compulsory examination, either before grant, or within three years of the date of grant.⁷⁵ These proposals were both mentioned earlier in Part 4.3.

ACIP, however, has some concerns with the compulsory examination proposal since it will substantially increase the costs of obtaining an innovation patent. Such a move could be seen as directly hindering or restricting access to the system by individuals and SMEs.

3.6.6 Change the name of the right

ACIP received a number of comments from stakeholders attending the roundtables that the name ‘innovation patent’ is confusing. There is a general perception within

⁷⁵ Recommendation 7 from ACIP’s *Review of the Petty Patent System* included a sub-recommendation that ‘Examination may be requested at any time, but not later than 3 years after the application was filed.’ The Government did not accept that insisting on substantive examination would be appropriate since it would add significantly to the ultimate cost for applicants who may be willing or unable to bear this cost, given the low probability of them being involved in litigation.

the broader community that a ‘patent’ has some form of legally-enforceable right. Unfortunately for innovation patents, this perception is incorrect since an innovation patent has no enforceable rights until after it has been examined and certified. As indicated in Part 3.1.1, nearly five out of every six innovation patents do not gain enforceable rights. Hence, the stakeholders believe that the term ‘patent’ should not be applied to these applications as it is inconsistent with public perceptions.

These stakeholders suggest using a different name for the IP right or swapping the terms so that an innovation patent does not take up the name ‘patent’ until after it is certified.

3.6.7 Education

There is no doubt that there are some very sophisticated users of the system (e.g. the patentees that have portfolios of five or more certified innovation patents that were discussed in Part 3.1.4). However, it is clear from the written submissions and roundtable discussions that a significant number of individuals and SMEs are generally ill-informed of the advantages and disadvantages of using the innovation patent system.

IP Australia’s website has a lot of information about filing for the appropriate IP right.⁷⁶ This information outlines some of the benefits and limitations of the innovation patent system.⁷⁷ It is arguable whether this information is being accessed/understood by Australian individuals/SMEs. Perhaps other communication channels may be needed to get the information disseminated to this audience or use group.

3.6.8 Exclusions

At the present time, the sole exclusions are plants and animals, and the biological processes for the generation of plants and animals, *except* if the invention is a microbiological process or a product of such a process.⁷⁸ ACIP has considered broadening this list of exclusions from the innovation patent system. Appendix 5 provides a list of the exclusions from the utility model systems of a number of Australia’s important trading partners.

A number of these utility model systems exclude methods and/or process (e.g. China, Japan, the Republic of Korea, Germany, Indonesia and Italy). ACIP considers that methods and processes could be excluded from the innovation patent system because the very nature of the innovation means that these sorts of subject matters are very difficult to reverse engineer—unlike, for example, the situation for devices and mechanical hardware. As such, there is an inherent protection available for innovators who develop new methods and processes. Furthermore, given the low level of innovation required to get an innovation patent certified, there appears to be little benefit to the broader society in granting innovation patents for these subject matters.

⁷⁶ See: <http://www.ipaustralia.gov.au/get-the-right-ip/>, accessed 16 April 2014.

⁷⁷ See: <http://www.ipaustralia.gov.au/get-the-right-ip/patents/types-of-patents/innovation-patent/>, accessed 16 April 2014.

⁷⁸ See subsections 18(3) and 18(4) of the *Patents Act 1990*.

ACIP also considers that chemical compositions and pharmaceuticals could be excluded from the innovation patent system. This would align the innovation patent system with the utility model systems of Japan, the Republic of Korea and Italy. Appendix 4 shows that there have been comparatively few innovation patents granted for pharmaceuticals and cosmetics since the system began in 2001 (less than 1.5 percent of the total grants). This point was made by Medicines Australia in their submission to the *Raising The Step* proposal. They also commented that the medicines industry relies primarily on standard patents to protect patentable inventions. If all of the categories including chemical compositions are considered, then the innovation patent grants in these categories only cover 3.25 percent of the total grants.⁷⁹ In any event, ACIP also considers that these sorts of innovations are more appropriately protected under the standard patent system. Such an exclusion would also remove any possibility that the innovation patent system could be used for ‘evergreening’ purposes—this was one of Alphapharm’s concerns raised in their submission to the *Raising The Step* proposal.

Lastly, ACIP considers that the innovation patent system could exclude software (i.e. computer-implemented inventions) from the list of patentable subject matters. ACIP notes that Japan and the Republic of Korea already exclude computer software from their utility model systems. ACIP believes that software patents require a comparatively low level of financial contribution by an innovator. Also, it is difficult to conduct a proper evaluation of the prior art base since a significant portion of the software is commercially developed for a client on a bespoke and confidential basis. As such, it is never ‘published’ and hence is not formally part of the prior art base.

3.6.9 Limit access to the innovation patent system

ACIP has considered whether measures should be taken to limit access to the innovation patent system. The provisions of the Paris Convention for the Protection of Intellectual Property⁸⁰ (Paris Convention) obligate Australia, as a signatory to the Convention, to provide no less favourable treatment to foreign applicants than it provides to Australian applicants. On this basis, it would arguably be inconsistent with the Paris Convention provisions if access to the innovation patents system was restricted solely to Australian applicants and to applicants resident in Australia.

Alternatively, ACIP has considered whether the innovation patent system could be restructured so as to exclude applications from all but individual applicants and SMEs. Such a restriction would be consistent with the objective of the innovation patent system to stimulate innovation in Australian SMEs.⁸¹ The difficulty with this approach would be how to perform the ‘exclusion’ without creating undue bureaucracy. ACIP notes that the recent changes to the R&D Tax Incentive Program could provide a suitable model.⁸² Under this program, R&D tax incentives are available to entities with an aggregated assessable income of less than \$20 million in

⁷⁹ The categories considered for this calculation are: basic chemical processing and petrol; biotechnology; macromolecular chemistry, polymers; and pharmaceuticals, chemicals.

⁸⁰ Available from: <http://www.wipo.int/treaties/en/ip/paris/>, accessed 16 April 2014.

⁸¹ See the Explanatory Memorandum for the Patents Amendment Bill 2000 *supra*.

⁸² See information on the R&D Tax Incentive Program on the *AusIndustry* website, available from: <http://www.ausindustry.gov.au/programs/innovation-rd-rd-taxincentive/pages/default.aspx>, accessed 16 April 2014.

an income year. An entity's assessable income is aggregated with the income of its affiliates, entities that it is affiliated with and entities connected with it so that the rules cannot be easily circumvented by diverting income to an associated entity.

Appendices

Appendix 1 Consideration of submissions to the Options Paper

This appendix outlines the general substance of comments made by attendees of the various roundtable forums. It also outlines the common themes made in the written submissions sent to ACIP regarding matters raised in the Options Paper. Lastly, any dissenting or other notable comments are included for completeness. As noted in Section 1.1 of Part C, ACIP received 65 written submissions—including four confidential submissions—and 37 stakeholders attended ACIP roundtables that were held in Melbourne, Brisbane and Sydney.

These comments and themes are arranged below under headings that are the same as those used in Chapter 5 of ACIP's Options Paper.

1.1 No change

There was very limited support for maintain the status quo and not implementing any further changes until the reforms made by the Raising the Bar Act had bedded down. Only seven written submissions and two attendees at the Brisbane roundtable preferred this option. One submission strongly supported this option as they believe that the Raising the Bar changes will address many of the concerns with the current innovation patent system. Another submission also indicated that there was no compelling need to make changes now—especially in view of the Raising the bar changes. yet another submission had a similar view on this option and also indicated that changing the innovation patent system now could possibly reduce use of a currently under-utilised system. It might also make the small (but evolving) body of law on innovation patents redundant.

These views contrast with those of six other submissions which all recognize that there are a number of deficiencies in the current innovation patent system that are known to exist and that need fixing.

1.2 Abolish the innovation patent system

There was also very limited support for this option of abolishing the innovation patent system, with a substantial proportion of the proponents coming from the software industry sector. Only seven submissions and four attendees at the roundtables supported this option. One submission strongly supported abolishing the system because they thought that innovation patents were very pro-patentee and distorted the Australian market in key industry areas. It was their view that the intentions of the innovation patent system could be accomplished through the standard patent system. Another submission supported abolition since the statistics referred to in the Options Paper and the Verve Economics report infer that the system is not achieving its main purpose of stimulating innovation in Australian SMEs.

On the other hand, another submission strongly supported retaining the innovation patent system as they believe there is a place in Australia for the protection of inventions having a lower threshold of inventiveness or in technologies that require a short period of protection. Yet another submission regarded abolition as a step backwards that would not help the Australian economy or Australian industry. A further submission indicated that abolition is unwarranted, but that continuing with the current system is sub-optimal.

1.3 Change the innovation patent system

The Options Paper explored eight options for changing the innovation patent system. These options will be discussed separately in the same order that they were raised in the Paper. A vast majority of stakeholders who made submissions or attended the roundtables (about 80 percent) favour changing the innovation patent system. However, there is no consensus amongst these stakeholders about what changes need to be made—i.e. there is no clear majority of stakeholders favouring any one change.

Raise the level of innovation

A significant minority of stakeholders (about 20 percent) support raising the level of innovation to a level above the innovative step level, but below the inventive step level that applies to standard patents.

There was no consensus within the stakeholders that support raising the level of innovation as to what this intermediate level should be. The IP profession advocated for a modified form of the current test that is based on the test set out by Dixon J in *Griffin v Isaacs*. The preferred modification involves comparing the innovation against the prior art to determine any differences and then assessing the differences to determine their contribution made to the working of the innovation. Only differences that make a substantial contribution to the working of the innovation will be considered to involve an innovative step. In effect, this modified test would encompass the full test set out by Dixon J, not a reduced test as it currently stands. The legal profession advocated for a test that includes consideration of CGK. One stakeholder suggested that the test described by the High Court of Australia in *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd* could be an option. A common theme of those stakeholders advocating a higher level of innovation was that the test to determine this higher level should be aligned with a prior existing test so that the law doesn't need to be developed and the public will have more certainty.

About nine percent of stakeholders want to see the current level of innovative step maintained. One stakeholder—an owner of a portfolio of certified innovation patents—is concerned by any attempt to change the level of innovative step. They believe that the current level of innovation has been thoroughly considered by the FCA and that any change to this level will create uncertainty.

Reduce remedies

A significant minority of stakeholders (about 35 percent) commented on the remedies available for infringement of a certified innovation patent. However, there was no consensus about whether the remedies need to be changed, and if so, what those changes should be. For example, attendees of the Brisbane roundtable generally agreed that the remedies available should fit the level of innovation, but there was no substantive suggestions as to what changes might be required to satisfy this requirement.

A popular comment from those supporting change in this area was that remedies should be available only from the date of certification of the innovation patent. There was less support for the remedies to only apply from the date of examination request. The reasoning behind these suggestions was that they would encourage patentees to seek an early examination and certification, and hence, there would be more clarity for users of the system.

There were also a number of proponents for removing injunctive relief if the innovation patent is not being commercially exploited. This would then encourage patentees to get their innovation patent into the market. An alternative to this suggested change was to reduce the term of injunctive relief by an amount equal to the delay in seeking certification. There was also one suggestion that damages payable to overseas patentees should be limited if they were not exploiting their innovation in Australia. One submission was concerned that there may be some difficulty and additional costs involved in establishing an adequately definition of ‘commercially exploited’.

A vast majority of the submissions from the software industry supported any mechanism that would limit damages for infringement of computational idea patents, but only if this genre of patents could not be excluded from being suitable subject matter. ‘Computational idea patents’ describe some method or algorithm of computation or information processing.

A common comment from those opposed to changing the remedies was that limiting the available remedies might prove unduly restrictive in particular circumstances. Also, changing remedies might result in the creation of a whole new series of problems and behaviours, and some of these may not be beneficial to society or users of the system.

One submission pointed out that the currently available remedies align with those available to the owner of a registered design.

Another submission suggested that the Patents Act should be amended to remove any possibility of a divisional innovation patent reaching back in time and being able to be infringed before its date of filing as was found to have occurred in *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd* [2012] FCA 467.

Limit the monopoly

There were very few stakeholders interested in this potential change to limit the monopoly of an innovation patent to a single embodiment. Only seven submissions were received that addressed this change, with only one submission supporting the change. The supporting submission was based on the premise that limiting the monopoly to a single embodiment will reduce the disincentive to progress currently provided by the innovation patent system. A majority of the submissions opposing the change came from IP professionals.

All of the attendees of the Melbourne roundtable did not support the proposed change.

Change processes – formalities check, compulsory certification

There were also very few stakeholders interested in making changes to the processes applicable to innovation patents. Twelve submissions were received, with the most popular suggestion being to introduce a requirement for examination of an innovation patent to be requested no later than the third anniversary (four submissions). One submission opposed any moves to make examination compulsory. One of the attendees at the Brisbane roundtable suggested that any moves to make examination compulsory would benefit infringers more than the patentees.

One submission suggested introducing an ability for patentees to extend the term of a certified innovation patent to 15 years as eight years was seen as being too short for many industries when a product life-cycle is considered. A different submission

suggested reducing the term of an innovation patent to five years to reflect the fact that about two-thirds of all innovation patents have lapsed at this time.

A few of the submissions requested a more rigorous formalities check that would ensure that every innovation patent has at least one claim. One of these submissions suggested an examination at filing that would address all issues other than novelty and innovative step. This would assist self-filers who typically have deficient applications with very limited disclosure and would allow rectification of this issue before the innovation patent is published.

Another of these submissions proposed that interested third parties be allowed to file an anonymous request for examination of an innovation patent. A number of the attendees at the Sydney roundtable had similar views.

A majority of attendees at the Melbourne roundtable did not support any changes to the processes applicable to innovation patents.

Change the name of the right

There was widespread acceptance by stakeholders that the public is confused by the name ‘innovation patent’. There is a general perception within the broader community that a ‘patent’ has some form of legally-enforceable right. Unfortunately for innovation patents, this perception is incorrect since an innovation patent has no enforceable rights until after it has been examined and certified. Hence, stakeholders believe that the term ‘patent’ should not be applied to these applications as it is inconsistent with public perceptions.

Either of the terms ‘innovation application’ or ‘innovation registration’ were seen as being appropriate for use in the period prior to certification of an innovation patent.

Education

Only 11 submissions commented on education issues associated with the innovation patent system. Two of these submissions commented that the underutilisation of the innovation patent system could indicate a lack of awareness which could be improved with a communication/education campaign. A number of submissions commented that this is not just an IP Australia issue—all stakeholders have to bear some responsibility, especially those who are IP professionals.

A number of submissions suggested that IP Australia’s website could be complemented by disseminating information through other communication channels—e.g. chambers of commerce, start-up information sessions, and in business courses.

One submission took an opposing view and suggested that there were no problems with the current processes. They believe that it is reasonable to assume that any interested party will be able to find information on the innovation patent system if they were genuinely looking for it.

A few attendees at the various roundtables commented that they find IP Australia’s current website very good and extremely useful.

Exclusions

ACIP received a considerable number of submissions and comments from individuals, businesses and business associations who work within the software industry over the

course of this review. An overwhelming number of the comments and submissions advocated for some changes to the treatment of ‘software patents’.

A common theme of 33 of the 34 submissions on this option made to the Options Paper was that the term ‘software patents’ is misleading. Such patents are not about any specific computer program or the expression of the program in formal programming language. Rather, they describe some method or algorithm of computation or information processing.

It was argued that the software industry operates in a different fashion to most traditional industries. It gains enormous benefits from mixing and matching ideas from many different software projects and recombining them into something new. The vast number of existing software patents and business method patents makes it near impossible for developers to properly search this area for every implemented idea that could possibly be infringed when writing new code. Also, the economics of the software industry is utterly unlike most other industries as the internet allows for effectively zero-cost distribution of software. Therefore, they proposed that software patents should be excluded from the innovation patent system.

One submission commented on their belief that patents in the software industry no longer serve their original purpose of protecting inventors. They have been co-opted by international and large corporates to restrict innovation from happening outside of their businesses. These owners simply reference their ‘war chest’ and patent portfolio and threaten SMEs innovating in their patent area knowing that the SMEs cannot afford to defend their inventions.

However, one submission from a software industry association strongly objected to any moves that would exclude software patents for the innovation patent system. They believe that an exclusion would restrict innovation and increase its costs. They also believe that such a proposal would be unworkable due to the increasing use of software in products that were not earlier associated with computers.

Two submissions strongly supported excluding pharmaceutical patents from the innovation patent system. They believe that such an exclusion will remove any possibility of using the system to support evergreening practices. Another submission contended that excluding pharmaceutical compositions and chemical compositions would have no real effect since these sorts of patents account for a very small proportion of the total number of granted innovation patents (3.25 percent).

These submissions contrast with another 10 submissions that did not support any broadening of the list of excluded subject matters.

Limit access to the innovation patent system

Only 10 submissions were received by ACIP that commented on access to the innovation patent system. A vast majority of these submissions did not support limiting access. A number of these submissions suggested that restricting access might be in breach of Australia’s international obligations.

One submission agreed that access should be limited and it proposed aligning eligibility to access the innovation patent system with the eligibility requirements to access R&D Tax incentives.

Another submission did not support restricting access. However, if this was to occur, then they would prefer to see the US or Canadian small entity provisions used as a basis rather than the provisions suggested in the Options Paper.

All but one of the attendees at the various roundtables discussing the Options paper did not support limiting access to the innovation patent system. The one attendee that supported limiting access suggested that only nationals of countries that have a comparable system should be allowed to access the innovation patent system.

Appendix 2 Consideration of earlier submissions

This appendix outlines the general substance of comments made by attendees of the various roundtable forums. It also outlines the common themes made in the written submissions sent to ACIP and IP Australia for their respective consultations. Lastly, any dissenting or other notable comments are included for completeness. As noted in Section 1.1 of Part C, ACIP received 34 written submissions—including two confidential submissions—and 22 stakeholders attended ACIP roundtables that were held in Melbourne, Brisbane and Sydney. IP Australia received 30 non-confidential submissions as noted in Section 1.6 of Part C.

These comments and themes are arranged below under headings that are the same as those used in Chapter 8 of ACIP's Issues Paper.

2.1 Effectiveness in stimulating innovation

There was widespread agreement amongst roundtable attendees that the innovation patent system is a useful adjunct to the standard patent system. However, no one could point to any evidence that would show that the innovation patent system has had a positive (or negative) influence on innovation in Australia. A typical comment at the roundtables was “the innovation patent system is being used—therefore it is useful.” There was a similar common theme in the written submissions.

IP professionals (e.g. patent attorneys and lawyers) had much more positive views on the impact of the innovation patent system on innovation in Australia when compared to other users of the system.

A significant minority of written comments complained about the disparity between the high level of protection and remedies available to the owner of a certified innovation patent and the very low level of innovation needed to sustain an innovation patent. This was seen as hindering progress and being anti-competitive. Five of the written submissions called for the abolition of the innovation patent system solely based on these grounds. These sorts of views were strongly endorsed by stakeholders who are employed as software developers or programmers within industry or academia. Only three of the roundtable attendees had similar views.

Costs were seen as important by some stakeholders, but this depended on the reasons for filing the innovation patent. The costs of professional service providers were also mentioned by a few stakeholders as being a significant factor for individuals and SMEs—these costs encouraging the self-filing of innovation patents. Litigation was also seen as being very expensive and unpredictable.

Six of the submissions to the *Raising The Step* consultation believe that raising the innovative step for innovation patents to inventive step level would be a disincentive for innovation and R&D, while another two argue that it would be detrimental to Australia's manufacturing industry. In total, there were 11 submissions stating that the *Raising The Step* proposal undermines support for Australian SMEs.

2.2 Follow-on innovation

ACIP received comparatively few comments on international perceptions of the innovation patent system and experiences in dealing with other second-tier rights systems. From these comments, it appears that large foreign applicants do not usually seek innovation patents in Australia—especially if second-tier patent systems are not

available in their home jurisdiction. However, some of the more sophisticated foreign users are beginning to see the benefits of innovation patents—particularly the strategic benefits. The data in Tables 1 and 2 supports this view since it shows an increasing use of innovation patents in recent years by foreign applicants.

Several stakeholders commented on Chinese applicants who are becoming interested in the innovation patent system, perhaps because of familiarity with China’s own utility model system. One stakeholder commented favourably on the German utility model system which was viewed as being a useful way of producing a rapid, low-cost, assertable right to protect an invention.

A single comment was received from an Australian stakeholder to the effect that innovation patents are of no interest to Australian firms who operate in other jurisdictions. This view was based on the fact that the innovation patent system is Australian specific with limited opportunities for international protection. This stakeholder believes that the standard patent system provides a greater level of certainty of value through the longer term.

2.3 Uncertainty

The responses and comments to the question on uncertainty covered the full gamut of sentiment from the innovation patent system being ‘spot on’ as it is, to the system is not working and delayed certification just makes it worse.

There were only a few comments at the positive end of the scale, with many more comments at the negative end of the scale. These negative comments all generally agreed that the uncertainty from delayed certification is a key disadvantage of the current system, and that this uncertainty stifles competition and follow-on innovation. A key factor here is the observation made in Part 3.1.1 that about 25 percent of all innovation patents are examined—the remaining 75 percent have an uncertain monopoly. This uncertainty is mitigated to some degree by the observation made in Part 3.1.2 that over half of all granted innovation patents have ceased at three years after their filing date.

However, a couple of stakeholders also observed that third parties can always request examination of an innovation patent that is of interest to them—albeit at some small expense to themselves. This action would remove the level of uncertainty by either confirming the validity of the patent or revoking the patent. A disadvantage for the third party requesting an examination is that such a request informs the innovation patentee of their interest and the patentee may then investigate the business interests of the third party.

Another stakeholder reminded ACIP about recommendation 7 from ACIP’s 1995 *Review of the Petty Patent System* wherein ACIP had recommended that substantive examination of an innovation patent occur no later than three years after the application was filed.⁸³ This stakeholder believes that such a measure would greatly decrease the level of uncertainty. However, a different stakeholder cautioned against compulsory certification as such a move would increase costs and could deter applicants by removing the incentive to file an innovation patent.

⁸³ See p. 43 of the Petty Patent report *supra*.

A number of stakeholders commented on the formalities check that is conducted by IP Australia—these comments all agreeing that the formalities check needs to be improved so that all granted innovation patents have some form of claim. [Apparently a number of innovation patents from self-filers are granted each year without any written claim.]

Two of the submissions to the Raising The Step consultation suggested that innovation patents should be examined prior to grant. This would then remove any uncertainty regarding the scope of protection and prevent spurious or sub-standard patents being added to the Register of Patents.

2.4 Relief from infringement

Nearly half of all comments and submissions made to ACIP were directed to questions 7 and 8 in the Issues Paper that related to relief from infringement. There was widespread agreement in these comments/submissions that the remedies available to an innovation patentee are not appropriate given the low level of innovation required to pass the innovative step threshold. A typical comment was that ‘the remedies for infringement should be much less than for standard patents’. A couple of stakeholders believe that interlocutory injunctions should not be available for infringement, but account of profits, damages and final injunctions should remain.

A few other stakeholders want to encourage early certification. This encouragement could take the form of limiting the damages period so that it can only be taken back to the date of requesting examination or, alternatively, reducing the term of injunctive relief by an amount equal to the delay in seeking certification.

One stakeholder went to some length to describe how the current enforcement provisions were unjust and unreasonable—they reward infringers by making enforcement costs too high for SMEs. This stakeholder suggests that a tiered enforcement system is required with a Tribunal to provide a cheaper enforcement option for patentees who face a lower level of infringement or who do not want to proceed to court in the first instance.

However, a number of stakeholders had opposing views. They agree that enforcement costs are high and, in their experience, often the principal remedy sought is an injunctive remedy. They also believe that removing injunctive relief would reduce the attractiveness of innovation patents to SMEs and innovators and might also drive undesirable behaviours such as patentees delaying infringement proceedings for as long as possible so as to maximize the value of any compensation that might be payable.

A small number of stakeholders believe that there is no compelling reason to limit the available remedies. They caution against any changes to the remedies that could significantly increase the costs, complexity and uncertainty associated with infringement proceedings. These stakeholders also believe that the remedies should not be changed and that the innovative step threshold should be raised.

2.5 Divisional innovation patents

Just over one third of all comments and submissions made to ACIP commented on divisional innovation patents. These comments covered the full gamut of sentiment from there is nothing wrong, to abolishing the ability to file divisional innovation patents.

It was widely accepted by stakeholders who commented on this issue that divisional innovation patents play a useful role in overcoming the delays in obtaining acceptance of the parent application. In this role, they were not seen as inhibiting competition or innovation.

There were only a few comments that supported the current provisions for filing divisional innovation patents, though these stakeholders generally accepted that the current system does have some flaws—particularly with the ability to file divisionals during court proceedings. A majority of these stakeholders believe that the changes being introduced by the Raising the Bar Act will address the flaws and that further changes should not be contemplated until there has been some experience of the changes being introduced by the Act.

The majority of stakeholders who commented on divisional innovation patents believe that this kind of patent is being misused by large corporations to create a wider patent ‘thicket’ around a standard patent application to deter legitimate competitors from entering an area of innovation.⁸⁴ Some stakeholders also commented that applicants can file divisionals with a ‘tweak’ to their invention so that an alleged infringer is caught by the divisional. Sometimes, these divisionals were filed whilst a court case was proceeding and the divisional included material learned from the court proceedings. These uses of divisionals were therefore seen as being anti-competitive.

Several stakeholders suggested that a higher inventiveness threshold would reduce these shortcomings. Other stakeholders suggested that applicants should not be allowed to file divisional innovation patents from standard patents, or that a limit be placed on the number of divisionals that can be filed. Very few stakeholders suggested that the ability to file divisional innovation patents should be abolished.

2.6 Lost opportunities

There were very few comments received by ACIP on converting a standard patent to an innovation patent. Of the comments received, it was accepted that IP professionals knew about this provision and would use it when necessary, but that self-filers would probably be unaware of this provision. However, applicants may not be keen to convert. Also, conversion may not be the most appropriate thing to do since the standard patent may be in its sixth year (or later) and there may not be much time remaining of the eight-year term for the innovation patent.

A couple of stakeholders commented that conversion was a ‘shameful’ business practice. They believe that if a patent application is found lacking in inventiveness, then it should not be granted as either a standard or innovation patent.

2.7 Computing

The question of whether computer software should be excluded subject matter for innovation patents received the second largest response of all questions in the Issues Paper—only question 1 got a larger response. An overwhelming number of the comments received (about half of the total comments received by ACIP) supported the exclusion of software. A typical comment was that ‘the patent system is clogged with dubious software patents—there is no tangible evidence that software patents improve

⁸⁴ Several stakeholders argued that Apple Inc’s use of the innovation patent system in recent years supports their point.

innovation'. A number of these stakeholders believe that the innovation patent system should also be abolished because it is seen as a hindrance to the software industry.

A number of stakeholders also commented on the fact that a lot of software is bespoke—i.e. it is written for a specific purpose for a specific client. This bespoke software is often not made public and hence, it does not appear in any search of the prior art. Consequently, a patent can be granted [in good faith] at a later time for the same innovation and this can cause significant problems for users of the earlier software. These stakeholders believe that a better system is needed to protect the creators of bespoke software. Perhaps a modified license system could be used where fees are linked to revenues from the sale of the software—no fee would then be paid for free software.

A vast majority of the comments supporting the exclusion appear to have resulted from a coordinated campaign to attack the innovation patent system solely on this ground.⁸⁵

A small number of stakeholders commented that Article 27.1 of the TRIPS Agreement requires that patents be available without discrimination as to the field of technology. If software is removed from protection, then this could substantially reduce or eliminate the commercial value of previously granted (and certified) innovation patents.

A couple of stakeholders also commented that exclusions for patentable subject matter do not work in practice. In their opinion, knowledgeable patent attorneys can draft allowable claims to the excluded subject matters—the attorneys just need the time to think about the issues and how best to express them in a form that will pass through the examination process.

2.8 Evergreening

A significant number of stakeholders also commented on whether chemical or pharmaceutical compositions should be excluded subject matter. A majority of the comments received did not support the exclusion, either because they believed that all subject matters should be patentable or because knowledgeable patent attorneys would be able to draft claims that avoided the exclusion. A typical comment was that the stakeholder was 'unaware of any problem with chemical or pharmaceutical compositions that needs to be addressed'.

One stakeholder suggested that this issue is not a patent issue—it is an issue that is best addressed by amending the *Therapeutic Goods Act 1989*.

Two submissions were made to the *Raising The Step* consultation stating that there is no evidence available to support the premise that innovation patents contribute to evergreening in Australia. This contrasts with the submission from Alphapharm Pty Limited which stated that:

'evergreening' contributes to patent deadweight costs and is actively being employed via the innovation patent system in a manner that creates barriers to legitimate product competition in Australia.

⁸⁵ Most of these comments (17 out of 34 written submissions) came from professional software engineers or developers who only addressed this question in their submissions.

2.9 Other comments

Most stakeholders who provided comments to ACIP made one or more comments under this question. A vast majority of the comments received covered the whole gamut of matters discussed Chapters 5.1 to 5.8 above and will not be further discussed.

One comment not made previously was that filing fees should be increased to try to get better quality applications. There should also be a five year term, with a five year extension available.

Another stakeholder suggested that the innovation patent system should be abolished and that we should use the Open Source technology movement as a model to develop a new system where technology and innovation can be incremented by small intellectual contributions.

Yet another stakeholder suggested that there needs to be some clear differentiation between granted and certified innovation patents—say by using a different numbering system for each category.

Lastly, there were a couple of comments about the current name of the innovation patent—the use of the term ‘patent’ after an application has been granted, but before it accrues any enforceable IP rights—was seen as causing confusion. These stakeholders suggest using a different name or swapping the terms so that the term ‘patent’ is not applied to an innovation until after the specification and claims have been substantively examined and certified.

Appendix 3 List of non-confidential submissions

3.1 ACIP's Options Paper

AirSpayce Pty Limited

Andrew Hassett

Ann Cahill

Ann Borda, Jonathan Chang, Roger Clarke, Alex Fraser, Michael Hideo-Smith,
Les Kitchen, Rusty Russell, Ben Strumfels and Andrew Tridgell

Anthony Berglas

AIPPI

Australian Information Industry Association

Australian Self-Medication Industry Inc.

Ben Finney

Beth Webster, Paul Jensen, Kwanghui Lim, Alfons Palangkaraya, Russell Thomson,
Gaétan de Rassenfosse

Brendan Scott

Brian May

BSA | The Software Alliance

Complementary Healthcare Council of Australia

Cooperative Research Centres Committee

Dale Harris

Daniel Black

Douglas Stetner

Duncan Roe

Edward Schofield

Electronic Frontiers Australia, Inc.

Eli Lily and Company

Federico Sevilla III

FICPI

Francis Smit

Glenn McIntosh

Graham Menhennitt

Home Loan Experts

Ian Maxwell

Innovation Perspectives

IPTA

Jogias Patent and Trade Mark Attorneys

Jurox Pty Limited

Kamal Advani

LCA

LIV

Linux Australia, Inc.
Linux Users of Victoria, Inc.
Luke Dunstan
Marcus Hasslinger
Martin Leadbeater
Mathew Norton
Matt Giuca and Shanika Kuruppu
Maurice Maneschi
McCormick IT
Michael Skeggs
Muli Management Pty Ltd
Nicholas Rait
Noon Silk
Novartis Pharmaceuticals Australia Pty Ltd
NZIPA
OneSteel Wire
Open Source Industry Australia Ltd
Paul Archer
Pirate Party Australia
ResMed Limited
Richard Andrews
Smart Openers Pty Ltd
Telstra Corporation Limited
Tim Serong
Tim Suthers

Electronic copies of these submissions are available, on request, from the ACIP Secretariat (send an email to: mail.acip@ipaaustralia.gov.au).

3.2 ACIP's Issues Paper

Adam Bolte

AIPPI

Alex Fraser

Anthony Berglas

Ben Palmer

Bill Appelbe, Anthony Berglas, Roger Clarke, Les Kitchen, Rusty Russell and
Andrew Tridgell

Bill Farrow

Business Software Alliance

Cameron Gibbs

Campbell Barton

Cooperative Research Centres Committee

Daniel Black

Douglas Stetner

Duncan Roe

FICPI

Glen Turner

Greg Adamson

Greg Colla

IPTA

LCA

Intellectual Ventures

Jonathan Newnham

Law Institute of Victoria

Luigi Palombi

Mathew Norton

Matt Giuca

Mike Kuiper and Lev Lafayette

Pirate Party Australia

Red Hat Asia Pacific

ResMed Limited

Telstra Corporation Limited

Tim Ainsworth

Electronic copies of these submissions are available, on request, from the ACIP Secretariat (send an email to: mail.acip@ipaustralia.gov.au).

3.3 IP Australia's *Raising The Step* Consultation

Alphapharm Pty Limited

Armour IP

Barry Eagar

Battlefield Sports

Chris Dent, Andrew Christie, David Studdert, Peter McIntyre and Lachlan Wilson

CTA Australia Pty Ltd

Delnorth Pty Ltd

Des Ryan AM

Dimitrios Eliades

Department of Health and Ageing (Cth)

End Software Patents Australia

FICPI

Google Inc

Hazel Moir

IPTA

LCA

Keith Leslie

Law Society of Western Australia

Law Institute of Victoria

Loris Hemlof

Medicines Australia

Michael Kraemer

NZIPA

Peter Slater

Peter Treloar

ResMed Limited

Search Factory Pty Ltd

Smart Openers Pty Ltd

Telstra Corporation Limited

Tim Ainsworth

Electronic copies of these submissions are available, on request, from the ACIP Secretariat (send an email to: mail.acip@ipaustalia.gov.au).

Appendix 4 Attendees at ACIP roundtable discussions

4.1 Sydney – 12 September 2013

Charles Berman, FB Rice
Stuart Fox, Inventors Association of Australia
Paul Green, ResMed Limited
Andrew Morton, BlueScope Steel Limited
John Dower, Freehills Patent Attorneys
Caroline Bommer, Shelston IP
Greg Gurr, IPTA
Christian Schieber, Watermark
Ian Maxwell, BT Imaging
Mozart Olbrycht-Palmer, Pirate Party Australia
Kate Lynch, Generic Medicines Industry Association Pty Ltd
Robert Fabien, OneSteel Wire
Lindley Edwards, CRC Committee member

4.2 Brisbane – 17 September 2013

Madhu Jogia, Jogias Patent and Trade Mark Attorneys
Jayne Keane, Inspiring Australia (QLD)
Grant Stonier, Davies Collison Cave
Ernst Le Roux, Patents & Technical IP, Rio Tinto
Claude Anese, Cullens Patent Attorneys
David Cash, Linc Energy
Dimitrios Eliades, Barrister
Nicola Lake, Griffith Hack
Mathew Norton, Grandmaster Tools
Peter Bolam, Queensland Law Society
Brendan Nugent, Astute IP
Samih Nabulsi, William A. Cook Australia Pty Ltd
Suzanne Miller, CRC Committee member

4.3 Melbourne – 20 September 2013

Karen Hallenstein, Law Institute of Victoria
Filipe Lim, Arlec Australia Pty Ltd
Michael Caine, IPTA
Amanda Stark, Griffith Hack
Noel Chambers, Sydney Foundation for Medical Research
Ben Sturmfels, End Software Patents Australia
Ashley Bates, Ashley Bates Consulting

Delyth Samuel, CRC Committee member
Gary Heyden, Deakin Research Commercial
Lev Lafayette, Victorian Partnership for Advanced Computing
Andrew Massie, Phillips Ormonde Fitzpatrick

4.4 Melbourne – 4 October 2011

Brian Goldberg, EKM Patent & Trade Marks
Joss Evans, INNOVIC
Karen Hallenstein, Law Institute of Victoria
Michael Caine, IPTA
Saskia Jahn, Phillips Ormonde Fitzpatrick

4.5 Brisbane – 5 October 2011

Alison McMillan, IP Gateway Patent & Trade Mark Attorneys
Alistair Smith, IPTA
Belinda Breakspear, McCullough Robertson
Brad Postma, Cullens Patent & Trade Mark Attorneys
Brendan Nugent, AusBiotech
Gint Silins, Cullens Patent & Trade Mark Attorneys
John Swinson, Mallesons Stephen Jacques
Mark Horsburgh, LESANZ
Mathew Norton, Grandmaster Tools
Paul Davis, Fisher Adams Kelly

4.6 Sydney – 11 October 2011

Caroline Bommer, Shelston IP
Charles Berman, FICPI
Greg Gurr, IPTA
John Dower, Freehills Patent & Trade Mark Attorneys
Matthew Roper, Siemens Ltd Australia
Paul Green, ResMed Limited
Stuart Fox, Inventors Association of Australia

Appendix 5

Comparison of Selected Utility Model Systems

Country	Name of Right [#]	Maximum Term [#]	Excluded Subject Matter Additional to that for a Standard Patent [#]	Lower Patentability Threshold [#]	Substantive Examination at Grant [#]
Australia	Innovation Patent	8 years	Plants, animals, biological processes	Yes	No
China	Utility Model	10 years	Processes, products changed only by mere substitution of material	Yes	No
Japan	Utility Model	10 years	Methods, computer software, chemical compositions, plants, animals	No	No
United States	Not applicable	-	-	-	-
Republic of Korea	Utility Model	10 years	Methods, processes, computer software, chemical compositions	Yes	Yes
Singapore	Not applicable	-	-	-	-
United Kingdom	Not applicable	-	-	-	-
New Zealand	Not applicable	-	-	-	-
India	Under review	-	-	-	-
Thailand	Petty Patent	6+2+2 years	None	Yes	No
Malaysia	Utility Innovation	10+5+5 years	None	Yes	Yes
Germany	Utility Model	3+3+2+2 years	Methods, processes, biotechnological inventions	No	No
Indonesia	Petty Patent	10 years	Methods, processes or uses	Yes	Yes
Taiwan	Utility Model	10 years	Any subject matter not relating to the form, construction or installation of an article	No	No
Hong Kong (SAR of China)	Short-term Patent	8 years	None	No	No
Italy	Utility Model	5+5 years	Methods, powders, liquids, chemical or pharmaceutical compositions	Yes	No
France	Certificate of Utility	6 years	None	No	No
Vietnam	Utility Solution	10 years	None	Yes	Yes
Papua New Guinea	Not applicable	-	-	-	-
Netherlands	Not applicable	-	-	-	-
Switzerland	Not applicable	-	-	-	-

[#] Data from: Kluwer Law International BV 2010, Manual for the Handling of Applications for Patents, Designs and Trade Marks Throughout the World, Supplement No. 133, December 2010.

Note: This Table compares Australia's innovation patent system with the utility model systems (if available) in Australia's top 10 two-way trading partners and selected other countries. These trading partners are arranged based on data sourced from *Composition of Trade Australia 2011-2012*, Australian Government, Department of Foreign Affairs and Trade, Table 4, p. 39; (Copy available from: http://www.dfat.gov.au/publications/stats-pubs/composition_trade.html), accessed 16 April 2014.

Appendix 6

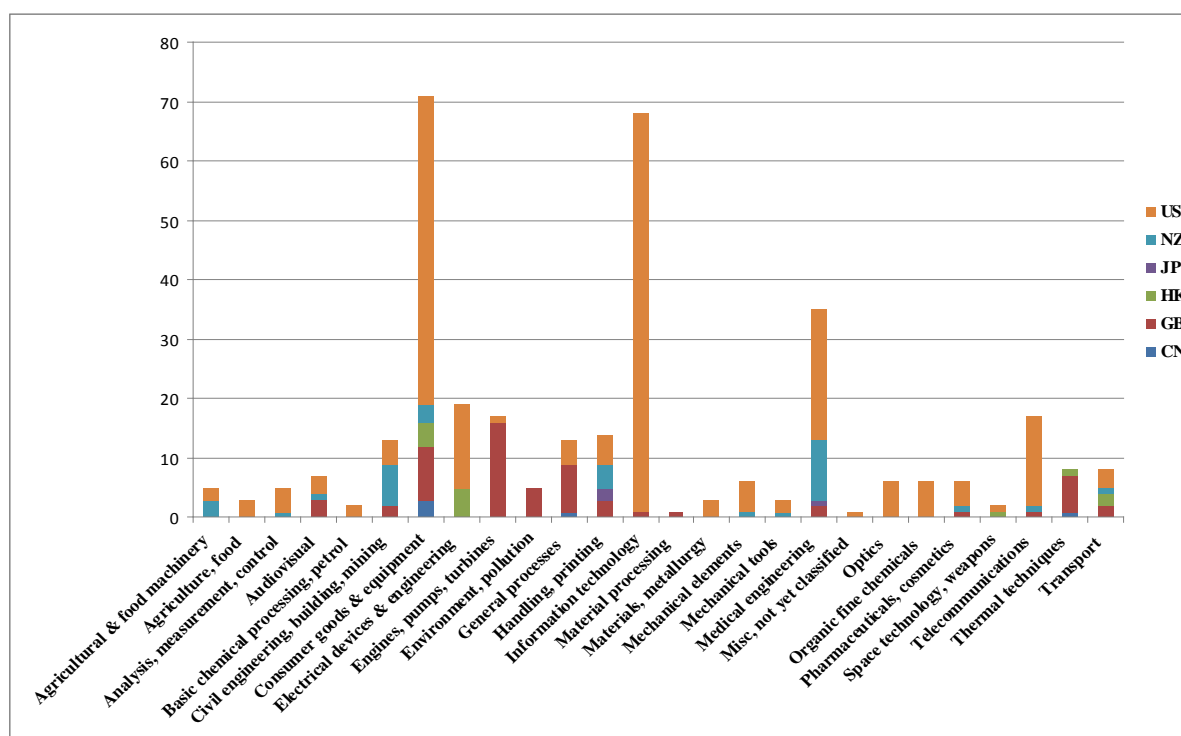
Innovation patent filings by technology group

PATENT TECHNOLOGY GROUP	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agricultural & food machinery	41	61	63	49	53	49	54	57	63	54	50	56
Agriculture, food	3	5	7	9	6	11	11	11	17	12	17	12
Analysis, measurement, control	44	46	39	53	69	57	47	55	47	84	69	86
Audiovisual	26	24	25	43	29	34	39	20	27	26	37	27
Basic chemical processing, petrol	2	8	8	7	9	5	22	9	19	22	14	18
Biotechnology	1	2	2	1	1	1	1	17	1	1	3	6
Civil engineering, building, mining	65	126	152	168	152	158	193	187	204	185	207	238
Consumer goods & equipment	143	220	241	233	244	206	246	280	263	340	286	343
Electrical devices & engineering	28	51	41	37	41	37	48	61	52	71	128	151
Engines, pumps, turbines	9	11	20	20	13	25	27	15	22	32	29	32
Environment, pollution	-	11	7	15	8	9	14	5	9	15	9	13
General processes	3	20	21	14	17	10	23	30	26	33	35	40
Handling, printing	48	59	62	81	71	58	95	64	100	77	109	97
Information technology	49	93	76	101	80	99	130	188	152	130	240	226
Macromolecular chemistry, polymers	2	3	4	3	2	2	2	2	-	5	5	6
Material processing	7	8	14	9	4	9	14	8	8	9	12	18
Materials, metallurgy	3	7	3	1	8	3	7	8	6	6	24	38
Mechanical elements	20	34	24	40	36	29	22	37	46	52	61	66
Mechanical tools	5	22	11	18	20	16	18	17	11	26	28	56
Medical engineering	18	46	53	39	42	52	48	44	45	55	51	58
Misc, not yet classified	10	6	2	-	2	2	2	1	8	7	33	19
Nuclear engineering	-	-	-	1	-	-	-	1	2	1	1	1
Optics	5	6	5	2	2	6	5	3	6	8	21	10
Organic fine chemicals	14	3	2	-	1	6	2	1	-	9	2	4
Pharmaceuticals, cosmetics	5	8	7	13	12	12	19	16	19	21	33	27
Semiconductors	1	1	2	1	1	2	2	5	4	1	3	13
Space technology, weapons	5	7	-	2	4	2	3	7	9	3	3	6
Surfaces, coatings	2	4	9	6	8	8	1	3	5	9	13	18
Telecommunications	29	37	30	27	34	54	30	17	26	32	37	43
Thermal techniques	8	14	19	20	16	12	15	21	26	33	26	36
Transport	64	83	87	91	86	114	103	88	113	108	104	92
Grand Total	660	1026	1036	1104	1071	1088	1243	1278	1336	1467	1690	1856

Appendix 7 Innovation patents certified to foreign patentees

Figure 7 looks at the technology snapshot in a different way. There were 441 innovation patents certified to foreign patentees in the period 2001-2011. In Figure 7, these certified patents have been arranged within technology groupings according to the patentee's country of residence. As can be seen, US residents are by far the most numerous of the foreign patentees. The most popular technology groupings were consumer goods and equipment, information technology, and medical engineering. Both the consumer goods category and the information technology category are also extremely popular for granted innovation patents. However, the medical engineering technology group has not been overly popular for granted innovation patents over the period 2001-2011.

Figure 7: Technology groupings of foreign-owned certified patents



Appendix 8 International treaty obligations

There is no global acceptance of what constitutes a utility model because different jurisdictions have fundamentally different utility model systems in place. These differences are highlighted by the different names, maximum terms, excluded subject matters and patentability thresholds as listed in Appendix 3 of this Report.

8.1 Paris Convention

Under the Paris Convention for the Protection of Intellectual Property⁸⁶ (Paris Convention), utility models are recognised as industrial property.⁸⁷ However, the Paris Convention does not regulate in any detail the requirements for a utility model. What the Convention does specify is that utility model applicants from other countries signatory to the Convention shall have the same protection as domestic applicants.⁸⁸ Also, a utility model application in one country can provide a right of priority for the filing of a patent application or an industrial design application in another country (and *vice versa*).⁸⁹

8.2 TRIPS Agreement

Part II of the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement)⁹⁰ prescribes minimum standards concerning the availability, scope and use of IPRs. The IPRs that these minimum standards apply to are copyright, trademarks, geographical indications, industrial designs, patents, layout designs of integrated circuits and undisclosed information.⁹¹

As explained previously, the Australian innovation patent system is, in effect, a utility model protection system. However, the Australian Government chose to call our utility model an ‘innovation patent’ when it was legislated in 2000. It is arguable whether the provisions of the TRIPS Agreement apply to the innovation patent system as this system is not a true ‘patent’ system within the meaning of Article 2.1 of the TRIPS Agreement. In any event, Australia has a TRIPS-compliant patent system independent of the innovation patent system.

8.3 Patent Cooperation Treaty

The Patent Cooperation Treaty (PCT)⁹² is designed to simplify the process for simultaneously filing patent applications in more than one country. The PCT regulates, in some detail, the formal requirements that a patent application must meet. The process also includes the establishment of a non-binding search report and a non-binding opinion on inventiveness for each PCT application. These processes assure applicants that their application will not be rejected on formality grounds by any PCT signatory. They also allow applicants to assess the probability of having a patent granted for their invention.

⁸⁶ Available from: <http://www.wipo.int/treaties/en/ip/paris/>, accessed 16 April 2014.

⁸⁷ See Article 4 of the Paris Convention.

⁸⁸ See Articles 2 and 3 of the Paris Convention.

⁸⁹ See Sections 4C, 4D and 4E of the Paris Convention.

⁹⁰ Available from: http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm, accessed 16 April 2014.

⁹¹ See Article 2.1 of the TRIPS Agreement.

⁹² Available from: <http://www.wipo.int/treaties/en/registration/pct/>, accessed 16 April 2014.

A PCT application does not in itself result in the grant of a patent—each PCT application is ultimately examined and granted according to the laws followed by each country or regional patent office that is selected by the applicant during the PCT process.

Article 2(ii) of the PCT defines a ‘patent’ as including references to:

...patents for inventions, inventors’ certificates, utility certificates, utility models, patents or certificates of addition, inventors’ certificates of addition, and utility certificates of addition.

Consequently, a PCT application can be for a utility model.

The Regulations under the Patent Cooperation Treaty (the PCT Rules) allow any country that grants utility model protection to assess a PCT application for a utility model under the relevant laws for utility models.⁹³ The PCT Rules also allow a PCT applicant to adapt their application to the relevant local requirements for utility models.

8.4 Australia-United States Free Trade Agreement

Like the TRIPS Agreement, the Australia-United States Free Trade Agreement (AUSFTA)⁹⁴ does not explicitly provide for utility model protection (or innovation patents) in any of its Articles even though the AUSFTA was negotiated long after the Paris Convention and the PCT came into force. It came into force on 1 January 2005—about four years after the innovation patent system commenced in Australia. On this basis, the lack of an explicit reference to utility models could be seen as inferring that the provisions of the AUSFTA do not apply to Australia’s innovation patent system.

8.5 Other bilateral or multilateral agreements

Aside from the AUSFTA, Australia currently has:

- bilateral free trade agreements in force with Chile, Malaysia (MAFTA), Singapore (SAFTA) and Thailand (TAFTA)
- a Closer Economic Relations Trade Agreement in force with New Zealand (known as ANZCERTA or the CER Agreement)
- a multilateral free trade agreement in force with the Association of Southeast Asian Nations (ASEAN) and New Zealand which has established the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA).

FTAs are also presently being negotiated with China, the Gulf Cooperation Council (GCC), Japan and the Republic of Korea. Additionally, Comprehensive Economic Cooperation Agreements are being negotiated with India and Indonesia, and a Regional Comprehensive Economic Partnership (RCEP) is being negotiated with ASEAN and New Zealand to build on the AANZFTA.

The following multilateral agreements are also being negotiated:

- the Pacific Agreement on Closer Economic Relations (PACER) Plus

⁹³ See Rule 6.5 of the PCT Rules.

⁹⁴ Available from: <http://www.dfat.gov.au/fta/ausfta/final-text/index.html>, accessed 16 April 2014.

- the Trans-Pacific Partnership (TPP) Agreement.⁹⁵

None of the Agreements in force specifically provide for utility model protection (or innovation patents). Rather, the IPRs covered by the Agreements generally follow the IPRs covered under the TRIPS Agreement discussed previously in Part 6.2 above. Again, it is arguable whether the provisions of any of these Agreements apply to Australia's innovation patent system.

⁹⁵ See <http://dfat.gov.au/fta/> for more detail on each of these Agreements, accessed 16 April 2014.

Appendix 9 Recent IP reform process

The innovation patent system has been amended as part of the IP Reform Project recently completed by IP Australia. These amendments were implemented by the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012*⁹⁶ and the *Intellectual Property Legislation Amendment (Raising the Bar) Regulation 2013 (No. 1)*.⁹⁷ The Raising the Bar Act received Royal Assent on 15 April 2012 and the Raising the Bar Regulation came into force on 15 April 2013.

The Explanatory Memorandum for the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011⁹⁸ indicates that the reforms remove some of the inconsistencies in the administration of the innovation patent system when compared to standard patent system.

The specific amendments relating to the innovation patent system include:

- (i). amending subsection 7(4) to remove the limitation that the CGK for the purposes of assessing innovative step is restricted to CGK only in Australia
- (ii). amending section 79C so that the deadline for filing a divisional innovation patent is three months after advertisement of acceptance of the earlier application (where the earlier patent is a standard patent) or no later than one month after the advertisement of certification of the parent patent (where the earlier patent is an innovation patent)
- (iii). amending paragraph 101B (2)(b) to include ‘usefulness’ as a ground for examination of an innovation patent
- (iv). permitting the Commissioner to consider information made publicly available through the doing of an act (whether in or out of the patent area) when assessing novelty and innovative step during both examination and re-examination
- (v). repealing section 101D requiring applicants and patentees to inform the Commissioner of the results of certain patentability searches during the examination process
- (vi). amending sections 101E and 101F so that a ‘balance of probabilities’ type test applies to considerations by the Commissioner when deciding whether to certify or revoke a granted innovation patent—the Commissioner will not be required to give the benefit of any doubt to the patentee
- (vii). permitting the Commissioner to revoke a certificate of examination under section 101EA if the Commissioner should not have made the decision and it is reasonable to revoke the decision, taking into account all of the circumstances
- (viii). amending subsection 101G (3) to expand the grounds for revocation of an innovation patent during re-examination to include:
 - a. subsection 40 (2) (full description and claims defining invention)

⁹⁶ Available from: <http://www.comlaw.gov.au/Details/C2012A00035>, accessed 16 April 2014.

⁹⁷ Available from: <http://www.comlaw.gov.au/Details/F2013L00479>, accessed 16 April 2014.

⁹⁸ Available from: <http://www.comlaw.gov.au/Details/C2011B00114>, accessed 16 April 2014.

- b. subsection 40 (3) (clear, succinct and fully supported claims)
 - c. paragraph 18 (1A) (a) (manner of manufacture)
 - d. paragraph 18 (1A) (c) (usefulness)
 - e. subsection 18 (2) (human beings and the biological processes for their generation are not patentable inventions)
 - f. subsection 18 (3) (plants and animals and the biological processes for their generation are not patentable inventions)
- (ix). amending section 101J to prevent the Commissioner from revoking an innovation patent following re-examination unless, additionally, the Commissioner is of the view, on the ‘balance of probabilities’, it is more likely than not that a ground of revocation has been made out
 - (x). amending section 101M so that entitlement is a ground for opposition to an innovation patent
 - (xi). amending section 101N so that in the case of an opposition to an innovation patent, the Commissioner is able to revoke if of the view, on the ‘balance of probabilities’, that it is more likely than not that a ground of revocation exists
 - (xii). amending section 102 so that an amendment to a specification is not allowable if, as a result of the amendment, the description, claims and drawings contained in the amended specification would go beyond the disclosure contained in the specification at its filing date.

Overall, these amendments are expected to generally raise patent standards for innovation patents and increase certainty. However, it should be noted that none of the amendments remove the concepts of a shorter term or a much lower patentability threshold for innovation patents when compared to standard patents.

Additionally, some of the amendments (e.g. in item (ii)) will reduce an applicant’s ability to use the innovation patent system for ‘tactical’ or ‘strategic’ purposes.

Notes:

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