

IP Australia Public Consultation Papers

August 2017



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Amending the inventive step requirements for Australian patents

Introduction

IP Australia's objective is to implement the Australian Government's response to Recommendations 7.2 and 7.3 of the Productivity Commission (PC) *Inquiry into Australia's intellectual property arrangements*¹ that relate to the inventive step for patents.

The purpose of this paper is to seek feedback on options for implementing these recommendations. The options relate to reforms to the inventive step itself (Part 1), amendments to the requirement of the technical features in a patent application (Part 2), and associated transitional arrangements (Part 3).

The paper discusses the pros and cons of each option but does not propose preferred options at this stage. IP Australia intends to use this process to gain further information before forming a view.

IP Australia invites interested parties to make written submissions in response to the questions presented in this paper by **Friday, 17 November 2017**.

IP Australia will consider the submissions, and undertake further consultation during the legislation drafting process.

Written submissions should be sent to consultation@ipaustrialia.gov.au.

For accessibility reasons, please submit responses by email in Word, RTF, or PDF format.

The contact officer is Lisa Bailey, who may be contacted on (02) 6222 3695, or via email on Lisa.Bailey@ipaustrialia.gov.au.

This paper is also available at:

www.ipaustrialia.gov.au/about-us/public-consultation

Submissions should be received no later than 17 November 2017.

Part 1: Inventive Step

Background

The objective of the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Raising the Bar Act) was to introduce a range of improvements across Australia's intellectual property (IP) system, making refinements to existing arrangements and implementing new initiatives aimed at increasing efficiency and effectiveness. In particular, the Raising the Bar Act aimed to raise the standards for the grant of a patent to be equivalent to international best practice, including raising the standard set for inventiveness and disclosure of an invention, bolstering the requirement that a patented invention be useful, and increasing certainty in the validity of granted patents.

In relation to inventive step, the Raising the Bar Act broadened the scope of the prior art base by removing the geographical limitation on common general knowledge, and the requirement that prior art documents be limited to only those documents that would have been 'ascertained, understood and regarded as relevant' by the skilled person. These amendments ensured that all information that was publicly available at the priority date of the claimed invention is taken into account and increase consistency between the standard test for inventive step in Australia and elsewhere.

¹ PC 2016, *Intellectual Property Arrangements*, Inquiry Report No. 78, Canberra.

The PC considered (Finding 7.1) that:

The Raising the Bar initiative moved the inventive step and other elements of patent law in the right direction by raising the threshold for granting a patent. There is a strong case, however, for further raising the threshold.

The PC considered that the Australian patent system could be more effective at encouraging socially valuable innovations.² The threshold level of inventive step was considered by the PC to be too low in Australia, and raising it would have the effect of encouraging ‘genuine innovations’ while lowering the social and economic costs from granting patents on ‘low-value’ inventions.³

The PC noted that the Australian inventive step threshold should be raised, at a minimum, to meet the highest threshold set by any country with which Australia conducts substantial technology trade.⁴ The PC also considered that the threshold for inventive step used by the European Patent Office (EPO) was more effective at ‘filtering out low-value patents than patent offices in other large markets for technology’,⁵ and therefore recommended that Australia’s standard should match it.

Recommendation 7.2 of the PC’s report stated:

The Australian Government should amend ss. 7(2) and 7(3) of the Patents Act 1990 (Cth) such that an invention is taken to involve an inventive step if, having regard to the prior art base, it is not obvious to a person skilled in the relevant art. The Explanatory Memorandum should state:

- *a ‘scintilla’ of invention, or a scenario where the skilled person would not ‘directly be led as a matter of course’, are insufficient thresholds for meeting the inventive step*
- *the ‘obvious to try’ test applied in Europe would in some instances be a suitable test.*

IP Australia should update the Australian Patent Office Manual of Practice and Procedure such that it will consider the technical features of an invention for the purpose of the inventive step and novelty tests.

In its response to the PC’s report, the Australian Government supported the PC’s recommendation on inventive step. The Government noted that it is desirable that the Australian threshold for inventive step is consistent with international best practice and that the Raising the Bar Act reforms had this as a stated policy goal. While that Act broadened the scope of the prior art base to be used in assessing inventive step, the fundamental threshold test for inventive step established by Australian courts remained unchanged.

While the Government recognises that the differences between assessment of inventive step in the EPO and in Australia will in many cases not result in a material difference to the patent claims that are ultimately granted, there could be some cases where the standard in Australia is lower than in Europe. Furthermore, due to the language of Australian statute and case law there is a perception that Australian law on inventive step is weaker than other jurisdictions.

The Government therefore intends to build on the Raising the Bar Act, and take this opportunity to align the threshold of inventive step in Australia with the threshold of inventive step used by the EPO. A number of options are presented below for consideration.

Background information on the assessment of inventive step can be found in **Attachment A**.

² Ibid, p 82.

³ The PC estimated that raising the threshold would result in about 700–800 fewer ‘low-value’ patents granted each year (equivalent to about 4.5 per cent of annual patents granted). See, *ibid*, p 228.

⁴ Ibid, p 225.

⁵ Ibid, p 221.

Policy Considerations

There are a range of policy considerations relevant to the implementation of the PC's recommendation on inventive step. IP Australia aims to balance these considerations in any option taken.

Adaptability

Like most legal tests, the assessment of inventive step needs to strike a balance between predictability of outcomes, and the adaptability to consider principles rather than rigid formulae. The PC recommended adaptability as one of the recommended guiding principles in formulating IP policy.⁶ An adaptable, principles-based approach is desirable for the assessment of patents, as it recognises that each invention and the circumstances surrounding it are different. Adaptability has allowed patent law to evolve to take account of new technologies and practices.⁷ However, there is always the risk that case law may develop such that a particular element of the legislation no longer fulfils its original policy objective. The principles of the Australian common-law legal tradition recognise the need for a level of consistency and predictability in legal decision-making.

Use of extrinsic materials versus legislation

While legal tests can be incorporated directly into the text of an Act, they can also be indicated in the extrinsic materials (such as the Explanatory Memorandum) as the intended interpretation.⁸ Related to the above consideration there is a balance to be struck between the flexibility and breadth of the words in the Act compared to the extrinsic materials, and how much interpretation should be left to the courts.

Differences between court and examination consideration of inventive step

Courts have the scope to conduct their inquiry into a question of inventive step, based on the considerable evidence they have available. The Commissioner of Patents' consideration in examination will necessarily have less evidence available, and may therefore benefit more from clear procedures that are intended to raise the standard of inventive step. Care needs to be taken to ensure that such procedures do not unnecessarily constrain the Commissioner of Patents (the Commissioner) to consider matters that the court can disregard as this might result in the Commissioner being forced to give a finding of inventive step that a court will invariably overturn. It could also result in greater uncertainty in how the Commissioner will interpret and apply subsequent court decisions on inventive step.

Options

Four options are presented for amending Australia's inventive step threshold, noting that IP Australia has not yet formed a view on the preferred option for implementing the PC's recommendation:

- Option IS-1: Implement the PC recommendation verbatim
- Option IS-2: Implement Option IS-1 with clarification of prior art base and interpretation
- Option IS-3: Implement Option IS-2 with amendments to Section 45 to codify that the Commissioner must determine if an invention is a solution to a technical problem
- Option IS-4: Enshrine the EPO problem-and-solution approach in the Patents Act

⁶ PC 2016, *Intellectual Property Arrangements*, Inquiry Report No. 78, Canberra, pages 70-71

⁷ For example, the Ergas review considered that 'Australia has on the whole benefited from the adaptiveness and flexibility that has characterised the manner of manufacture test.' See: IP and Competition Review Committee, *Final report of the Review of intellectual property legislation under the Competition Principles Agreement*, 2000, pp 148-149. Available at: https://www.ipaustralia.gov.au/sites/g/files/net856/f/ergas_report_september_2000.pdf

⁸ Section 15AB of the *Acts Interpretation Act 1901*

Option IS-1: Implement the PC recommendation verbatim

Summary

Under this option, the PC's recommendation would be implemented *verbatim*. This would result in the definition of inventive step in the Patents Act being based on Article 56 of the European Patent Convention (EPC) and the explanatory memorandum (EM) providing some additional guidance.

Legislative change

Section 7(2) of Patents Act would be amended to state:

An invention is taken to involve an inventive step if, having regard to the prior art base, it is not obvious to a person skilled in the relevant art.

Part of the intent of the PC's recommendation was to take the more complex wording out of the Patents Act and rely more heavily on examination guidance, as per the EPO approach⁹. As such, the text of the test for inventive step proposed by the PC was intended to be all that was necessary to define inventive step in the Act. Therefore the definition of 'prior art base' in section 7(3) would be repealed, with the understanding of what constitutes relevant prior art being provided in examination guidance in the form of the Australian Patent Office Manual of Practice and Procedure (MPP).

Guidance

As recommended by the PC, the EM would state that:

- a 'scintilla' of invention, or a scenario where the skilled person would not 'directly be led as a matter of course', are insufficient thresholds for meeting the inventive step, and
- the 'obvious to try' test applied in Europe would in some instances be a suitable test.

The MPP would be amended to state that the Commissioner will consider the technical features of an invention for the purposes of the inventive step test. The PC also recommended that this be considered in relation to the novelty test. However, the Commissioner already disregards features that do not materially affect the way the invention works.¹⁰ No amendments to the MPP in relation to the novelty test would be made.

Discussion

This approach would make the legislation as simple as possible, however there are potential problems with it that would prevent it from achieving the PC's desired effect. While simplicity of legislation can be desirable for the sake of adaptability, the composition of the 'prior art base' in Australia is explicitly defined in legislation as a result of the case law history of inventive step.

For example, in the *Patents Act 1952*, revocation of a patent on the grounds of lack of inventive step was available if: 'The invention, so far as claimed in any claim, was obvious and did not involve an inventive step, having regard to what was known or used in Australia on or before the priority date of that claim'.¹¹ The phrase 'having regard to what was known or used in Australia' (i.e. the prior art base) was construed by the High Court of Australia as meaning the common general knowledge in the art only.¹² Information from prior published documents, even if it would be readily found by the skilled person, was excluded from the prior art base for establishing inventive step unless it could be proved to be well-known in the art.

The *Patents Act 1990* addressed this issue by explicitly incorporating a definition of the prior art base into the Act. As such, given existing legal precedent there is a risk that removal of an explicit definition of 'prior

⁹ PC report page 224

¹⁰ Patents Manual of Practice and Procedure 2.4.8.4

¹¹ *Patents Act 1952*, Paragraph 100(1)(e)

¹² *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd* [1980] HCA 9

art base' in the Act could result in additional uncertainty around its scope for the purposes of assessing inventive step.

A further risk is that the PC's characterisation of the 'scintilla' of invention as a threshold standard for inventive step may be incorrect. The principle of 'a scintilla of invention' is generally intended to convey that the test for obviousness is that either an inventive step is present or it is not, and not question of degree¹³. As such, the inclusion of the PC's text in the explanatory memorandum may not achieve what is intended by the PC.

The PC's recommended wording is substantially similar to the current wording in the first part of section 7(2) of the Patents Act. The PC recognised this by including in its recommendation the need for guidance on the interpretation of the wording. In practice, this guidance may not be enough to ensure that the courts use the EPO approach rather than refer back to previous Australian case law on inventive step. This may result in little difference in practice from the current interpretation. This includes in relation to the assessment of technical features of the invention.

Option IS-2 presents an alternative that would provide clearer guidance in interpretation to help achieve the PC's intended outcome.

Option IS-2: Implement Option IS-1 with clarification of the prior art base and interpretation

Summary

Under this option, the PC's recommendation would be implemented with additional clarifying amendments to help ensure the desired effect is achieved. The definition of inventive step in the Patents Act would be amended to match the EPC definition. Both sections 7(2) and 7(3) of the Patents Act would be amended, and the EM would provide additional guidance on the intended effects of the change.

Legislative change

Section 7(2) of Patents Act would be amended based on Art 56 of the EPC to state:

An invention is considered as involving an inventive step if, having regard to the prior art base, it is not obvious to a person skilled in the relevant art.

To address the PC's intent of reducing the complexity of the inventive step legislation, the prior art base definition for inventive step in Schedule 1 would be redrafted. This would reduce legislative complexity, but is not intended to change the information considered for the purposes of determining whether or not an invention involves an inventive step.

In detail, these amendments would include the information that is largely in the second part of section 7(2) and in section 7(3) such that the prior art base for inventive step includes:

- any single piece of information; or
- a combination of any two or more pieces of information that the skilled person mentioned in subsection (2) could, before the priority date of the relevant claim, be reasonably expected to have combined; and
- common general knowledge as it existed (whether in or out of the patent area) before the priority date of the relevant claim, whether that knowledge is considered separately or together with the information mentioned above.

The definition of 'prior art information' for the purposes of subsection 7(3) in Schedule 1 would be repealed, as it would be redundant.

¹³ AstraZeneca AB v Apotex Pty Ltd; AstraZeneca AB v Watson Pharma Pty Ltd; AstraZeneca AB v Ascent Pharma Pty Ltd [2015] HCA 30 at [12]

Guidance

To provide clearer guidance than Option IS-1, the EM would go into detail about the EPO approach and its interpretation, including an explanation of the full problem-and-solution approach that the PC proposed be applied in Australia. The EM would state that:

- The wording is similar to Art 56 (and Art 54(2)) of the EPC, and as such is intended to be interpreted in a similar way.
- The fundamental question remains: ‘at the time of the priority date, was the claimed invention obvious to the skilled person in the art, in the light of the prior art?’
- The problem-and-solution approach as established by the EPO technical boards of appeal would normally be a suitable approach to answering this question.
- When using the problem-and-solution approach, the question to be answered is whether the skilled person would, when faced with the objective technical problem, be prompted to modify or adapt the closest prior art to arrive at the invention, with a reasonable hope of solving the problem.¹⁴

As with Option IS-1, the MPP would be amended to state that the Commissioner will consider the technical features of an invention for the purposes of the inventive step test, but amendments would not be made for novelty for the same reasons as above. The additional guidance in the EM explicitly endorsing the EPO problem-and-solution approach would ensure that it is clear that technical features are usually intended to be considered in the assessment of inventive step.

Discussion

Relative to Option IS-1, this approach provides some additional clarity in both the legislation and extrinsic materials, rather than leaving the bulk of the interpretation to the MPP and the courts.

Under this approach, examination outcomes should be the same as the EPO in most cases, because the explanatory material will endorse the full EPO problem-and-solution test in most cases. However, this option provides some adaptability for the Commissioner to use other tests where the EPO problem-and-solution approach is not considered appropriate. It also allows the courts to answer the question of inventive step from first principles according to the available evidence, rather than following a rigid formula. This provides room for the interpretation of the law to evolve with new case law and technology and also any changes to the EPO approach over time.

The same approach will apply in IP Australia and the courts, allowing the Commissioner to directly apply court precedent on inventive step as it evolves.

The flexibility available under this option could mean less predictability in examination and court outcomes and that there will still be instances where Australian prosecution outcomes differ from the EPO. For example, without explicit reference in the Australian legislation to an invention being of technical character, courts could still consider non-technical features to contribute to an inventive step in some cases.

The redrafting of the definitions of prior art base is intended to streamline the legislation, while ensuring that the advantages of codifying the prior art remain. The intention is that all prior-published documents, along with the common general knowledge in the art, will remain relevant prior art for determining inventive step, in common with the EPO. In addition, the express ability to combine two or more documents provides for the purposes of determining the prior art may be beneficial, for example in situations where there is no single piece of ‘closest prior art’.

¹⁴ See section 5.3 of the EPO Guidelines for Examination, available at: https://www.epo.org/law-practice/legal-texts/html/guidelines/e/g_vii_5_3.htm

Option IS-3: Implement Option IS-2 with amendments to Section 45 to codify that the Commissioner must determine if an invention is a solution to a technical problem

Summary

Option IS-2 above is intended to provide some flexibility in relation to applying tests other than the EPO's problem-and-solution approach. It follows that there will still be room for Australian prosecution outcomes to be different from the EPO.

This option seeks to leave some flexibility to the courts, while bringing the Commissioner's consideration of inventive step into line with the EPO. This could have the advantage, as discussed above, of providing clearer and more predictable outcomes for examination, while allowing the courts to diverge if they consider that the EPO's approach is not appropriate in a particular case.

Under this option, sections 7(2) and 7(3) of Patents Act would be amended as per Option IS-2. In addition, amendments would be made to section 45 (examination) of the Patents Act to include an examination requirement to consider the 'objective technical problem'¹⁵ while reporting on inventive step. The change to section 45 would codify the EPO problem-and-solution approach into examination practice.

Legislative Change

Sections 7(2) and 7(3) of the Patents Act will be amended with any changes required for the prior art base as mentioned above for Option IS-2. Additionally, Section 45 of the Patents Act will be amended to include an additional requirement that the Commissioner must report on 'whether the invention represents a solution to an objective technical problem'.

Consequential amendments would include:

- Section 49 would be amended to provide that a patent cannot be accepted if the Commissioner is satisfied (on balance of probabilities) that it does not comply with new requirement proposed under section 45.
- Sections 98(b) (re-examination) and 59 (opposition to grant of standard patent) would be amended to provide grounds to report on re-examination and grounds to oppose the grant of the patent to comply with the proposed changes under sections 45 and 49. However, section 138 (revocation by a court) would not be amended, as the courts do not report on these sections.

Guidance

The EM in addition to what is detailed under Option IS-2 would state:

- The Commissioner of Patents will follow the problem-and-solution approach as established by the EPO technical boards of appeal to assess whether the invention represents the solution to an objective technical problem, except in exceptional circumstances.

The EPO problem-and-solution approach has three main stages:¹⁶

- determining the closest prior art
- establishing on the basis of the closest prior art, the teaching of the specification and the claimed invention, the objective technical problem to be solved; and
- considering whether or not the claimed invention, starting from the closest prior art and the objective technical problem, would have been obvious to the skilled person.

¹⁵ See section 5.2 of the EPO Guides for Examination, available at: https://www.epo.org/law-practice/legal-texts/html/guidelines/e/g_vii_5_2.htm

¹⁶ EPO guidelines for examination, part G, chapter VII, section 5. Available at: https://www.epo.org/law-practice/legal-texts/html/guidelines/e/g_vii_5.htm

The key details would be set out in similar wordings as in EPO Guidelines for Examination and are intended to be interpreted in the same way by the Commissioner. The MPP would also be updated where necessary to provide examination guidelines in line with the EPO guidelines.

Discussion

Relative to Option IS-2, this approach retains the flexibility for the courts to determine inventive step from first principles, with all the associated advantages, but provides the Commissioner with more structured approach. The change to section 45 codifies the EPO problem-and-solution approach into examination practice. This approach increases legislative complexity, and may result in divergence between court and examination approach to inventive step. This could lead to uncertainty for applicants and third parties due to the inability to rely on the Commissioner's decision on inventive step.

Amendments to redraft the prior art base would have the same advantages as discussed for Option IS-2.

Option IS-4: Enshrine the EPO problem-and-solution approach in the Patents Act

Summary

Options IS-2 and IS-3 would provide an approach to the assessment of inventive step by the Commissioner that should be the same as the EPO in most cases. These options leave open a certain degree of adaptability in the assessment of inventive step, particularly for the courts. Option IS-4 would define the inventive step prescriptively in legislation to match the current EPO problem-and-solution approach.

Legislative change

Section 7(2) of Patents Act will be amended to state:

that a claimed invention is taken not to involve an inventive step if, starting from the closest prior art information and the objective technical problem, it would have been obvious to the person skilled in the relevant art, in the light of the common general knowledge and the prior art information.

The 'prior art base' definition for inventive step in Schedule 1 will be renamed 'prior art information' and redrafted in the same manner as for Options IS-2 and IS-3.

Guidance

As per Option IS-2, the EM would be based on EPO's Guidelines for Examination and will indicate that the test for inventive step is intended to be interpreted in a similar way by all decision makers. It will also indicate that the decisions and interpretations provided by the EPO on inventive step are intended to be followed in Australia. The MPP would also be updated where necessary to provide examination guidelines in line with the EPO guidelines.

Discussion

Relative to Options IS-1, IS-2 and IS-3, this option is more prescriptive, both in the legislation and the test to be applied. The option should ensure that the outcomes of an inventive step assessment in Australia will in all circumstances align with the EPO's problem-and-solution approach. It further includes the requirement for an invention to involve a technical solution to a technical problem explicitly in the Act, to put the matter beyond doubt. As such, inventive step outcomes should be the same as in the EPO.

The substantive requirements for patentability have generally been cast in broad and flexible language, with the details of interpretation left to the courts. It could be considered that a greater level of certainty in the interpretation of the law regarding inventive step is necessary for the system to be most effective at encouraging innovation and filtering out low value patents, and that this consideration may outweigh the need for adaptability in this case.

The Commissioner and the courts would have the same standard for assessing inventive step for this option.

Part 2: Technical Features

Background

The requirements for patent specifications, including the claims that define the invention, are set out in section 40 of the Patents Act (substantive requirements) and regulation 3.2A of the *Patents Regulations 1991* (matters of form). In contrast to the EPO, there is no requirement for the applicant to explicitly set out the ‘technical features’ of the claimed invention that distinguish it from the closest prior art.

The PC considered three options to improve the information available to examiners when making assessments of inventive step:¹⁷

1. Requiring applicants to specify their claims in two parts. The first part would identify the prior art relevant to the specific claim, while the second part would identify the features of the invention that add to the prior art. This would be consistent with EPO practice.
2. Requiring applicants to identify in the set of claims the technical features of the invention. Again this is consistent with EPO practice.
3. Requiring applicants to explain why the invention is non-obvious.

Ultimately the PC saw merit in requiring applicants to identify the technical features of the claimed invention. The PC considered that this would address the information asymmetry between applicants and examiners, while imposing a smaller red tape burden on applicants than the other two rejected options.

Recommendation 7.3 of the PC’s report stated:

IP Australia should reform its patent filing processes to require applicants to identify the technical features of the invention in the set of claims.

The Australian Government supported this recommendation, while noting that this recommendation aligns with recommendation 7.2, which the Government has also supported. The Government committed to implement both of these recommendations at the same time.

Policy Considerations

There are a number of policy considerations that may affect how the PC’s recommendation on technical features might be implemented, which IP Australia wants to consider, noting that it does not have a preferred option. The PC’s primary objective was to improve patent office decision making by ‘improv[ing] the information available to examiners, while minimising the costs incurred by patent offices and applicants.’¹⁸

Regulatory burden

The first consideration is the regulatory burden on the applicant in identifying the technical features. The regulatory burden on applicants can be reduced by having flexible arrangements around the provision of such information and/or aligning Australian requirements with other jurisdictions.

Audience for the information

The second consideration is the intended audience. On the one hand, the PC cast its recommendation in the context of providing *examiners* with the information necessary to make an inventive step decision. On the other hand, it could be argued that identifying the technical features is part of the ‘bargain’ between the public and the patentee: part of the *quid pro quo* for granting a monopoly right is adequately identifying the technical features that qualify the invention for monopoly protection.

¹⁷ PC 2016, *Intellectual Property Arrangements*, Inquiry Report No. 78, Canberra, pp 230-232.

¹⁸ PC 2016, *Intellectual Property Arrangements*, Inquiry Report No. 78, Canberra, p 230.

Consequences of a failure to identify

The third consideration, which is related to the first two above, is the consequence for failing to adequately identify the technical features. Should the applicant have an opportunity to amend their application to identify the technical features? Should it result in a rejection *only* if the examiner cannot determine the technical features from other material in the specification? Or should it result in the rejection of the application, even if the examiner can identify the technical features implicit in the specification as a whole?

Interaction with inventive step test

The fourth consideration is the interaction with the various options for amending the inventive step test itself, as discussed above.

Novelty and technical features

While the PC stated that the novelty test should be based on the technical features of the invention,¹⁹ their recommendation was not to change the existing novelty test but to amend the MPP to reflect this.²⁰ However, as noted above, we propose no amendments to MPP for the novelty test as the Commissioner already disregards features that do not materially affect the way the invention works.²¹

Options

Three options are presented in relation to technical features:

- Option TF-1: Assessment by examiner through modified claim requirements
- Option TF-2: Assessment by examiner through inventive step requirements
- Option TF-3: Assessment by examiner through a separate document requirement

Option TF-1: Assessment by examiner through modified claim requirements

Summary

Under this option, applicants would be required to identify the technical features of the invention in the claims themselves. Failure to do so would result in a section 40 objection at examination (and would also be a ground for opposition, re-examination and revocation). An applicant who did not adequately identify the technical features in the first instance would be faced with the usual limitations on amendments that could be made to the claims to remedy the defect. That is, amendments that would claim or disclose matter that extends beyond the disclosure in the specification *as filed* (and certain other documents) are not allowable.²²

Legislative Change

Section 40 would be amended to include an additional requirement that a claim must identify the technical features of the claimed invention.

Consequential amendments would be made to:

- Sections 49(1)(a), 59(c), 98(a) and 138(3)(f) to include a reference to the new requirement.
- Section 102 would apply to any request to amend the claim to identify the technical features, meaning that some such amendments might not be allowable (depending on what was already included in the specification).

¹⁹ PC 2016, *Intellectual Property Arrangements*, Inquiry Report No. 78, Canberra, p 231.

²⁰ *Ibid*, 229.

²¹ Patents Manual of Practice and Procedure 2.4.8.4

²² Patents Act, s 102(1).

Guidance

The legislative requirement would be phrased in line with rule 43 EPC – ‘the claims shall define the matter for which protection is sought in terms of the technical features of the invention.’ Further details would be left to the MPP.

Discussion

This option would have some regulatory burden, in that the technical features would need to be identified in every specification. Many specifications already include this information as they would be drafted to European standards. 29% of applicants who file in Australia file in an EPC member state first,²³ and 10% of applications filed overseas by Australians are filed with the EPO²⁴

The option would also provide a strong incentive for applicants to adequately identify the technical features at the filing stage, as there may be limited scope to make an amendment later on. This would benefit both examiners and the public by providing more information about the invention.

Where an applicant fails to adequately identify the technical features, the consequence is a risk of loss of rights for the applicant, if an amendment to identify the technical features would be non-allowable under section 102. But the risk of this occurring to applications originating from other jurisdictions should be minimal since the Patent Cooperation Treaty (PCT) has a similar requirement,²⁵ and many applications that enter national phase in Australia will also enter the national phase in Europe.

Note that this option may not be appropriate if Option IS-3 above was chosen for inventive step. Under Option IS-3 the new requirement that the invention involve a solution to an objective technical problem is considered in examination, re-examination and oppositions. Option IS-3 does not propose to amend section 138, so a failure of the invention to involve a solution to an objective technical problem may not be considered during court revocation proceedings (though it may be considered implicitly as part of the amended inventive step test). Consequently, it may be unnecessary to have the requirement to identify technical features (which are supposed to support the assessment of the object technical problem) as a ground for revocation by a court.

Option TF-2: Assessment by examiner (inventive step objection if necessary)

Summary

Under this option, an applicant would only have to identify the technical features of the invention if the examiner was unable to discern the features from the existing specification. If the examiner was unable to discern the technical features, and thus unable to be satisfied that the invention was a solution to an objective technical problem, this would be raised as part of the inventive step objection (or under the new paragraph 45(1)(e) if Option IS-3 above is preferred).

Legislative Change

No legislative change would be required. The applicant would only be required to identify the technical features to the extent that an examiner could not be satisfied under the existing inventive step test (or the new separate ground under Option IS-3 above). An applicant would be under no legislative requirement to provide an identification of the technical features, but a failure to do so would likely mean that the objection would be maintained.

²³ Five-year average (2012-2016) from [IPGOD](#) data.

²⁴ IP Australia, *Australian Intellectual Property Report 2017*, p 10. Available at: https://www.ipaustralia.gov.au/sites/g/files/net856/f/ip_report_2017.pdf

²⁵ Rule 6.3 of the Regulations under the Patent Cooperation Treaty.

Guidance

The details of the requirement to identify the technical features in response to an inventive step objection would be left to the MPP.

Discussion

There would be a smaller regulatory burden for applicants compared to some of the other options, as applicants will only have to explicitly identify the technical features if they could not otherwise be discerned from the rest of the specifications. This option could reduce the information available to the public as there would not necessarily be an explicit identification of the technical features in the specification or any other document. The consequences for failing to identify the features would not be a loss of rights, as the applicant could provide further information to identify the technical features if necessary.

Option TF-3: Assessment by examiner through a separate document requirement

Summary

Under this option applications would have to include, as a separate document (not part of the specification), an identification of the technical features of the invention. The document would not be scrutinised until the examination stage. This would occur as part of the ordinary examination, and a failure to adequately identify the technical features of the invention would result in an examination objection. Importantly, this objection would be separate to the existing inventive step (and, if Option IS-3 above is adopted for inventive step, the new paragraph 45(1)(e) ground) and section 40 grounds. The examination objection could be overcome by amending the application to include an adequate identification of the technical features (unlike a section 40 objection, a failure to do this at the time of filing may not be fatal to the application).

Legislative Change

This change would involve amendment of either the Act or Regulations to introduce a requirement for an application to include a document that adequately identifies the technical features of the invention. This document would not be subject to the restrictions that apply to amendments of specifications (section 102 of the Patents Act), so it would be possible to amend these documents at any point in the life of an application.

Regulation 3.18 would be amended to require the Commissioner to report on whether the document complies with the requirement to identify the technical features of the invention. If, after any amendments, the document still did not adequately identify the technical features the Commissioner would reject the application. This would be a ground for objection at examination only: it would not be a ground for opposition, re-examination or revocation.

Guidance

The legislative requirement would be phrased in broad terms: it would simply require the applicant to 'identify the technical features of the claimed invention.' Further details as to how to comply with this would be left to the MPP.

Discussion

This option would have a substantial regulatory burden as every application would need to have a separate document identifying the technical features. Providing this information in a different format to other jurisdictions (e.g. Europe) would impose a larger burden on applicants who would have to provide the information in a different format.

A failure to adequately identify the technical features in the first instance would be dealt with as an examination objection that could be remedied by amendment, ensuring that applicants do not lose rights.

This option would have the advantage of explicitly providing the technical features information to both the public and the examiner. Article 27 of the PCT and Article 6 of the *Patent Law Treaty 2000* (PLT) may be relevant here. These articles concern the ability of the office to impose additional requirements as to the 'form or contents' of an application, but notably do not concern the requirements of substantive patent law.²⁶

²⁶ *Explanatory Notes on the PLT & Regulations of the PLT*, Art 6 (Note 6.02); PCT, art 27(5).

Part 3: Transitional arrangements

Policy Considerations

The PC encouraged the Government to implement their proposed changes to inventive step at the earliest possible opportunity, in order to improve the patent system and benefit the public by ensuring that ‘low value’ patents are less likely to be granted. There is a balance of considerations to be struck in changing a system where potentially valuable property rights are at stake, and commercial decisions may have been made long before the commencement of any legal amendments.

As explained in the EM to the Raising the Bar Act, the principles underpinning transitional arrangements that substantively impact patentability are that the changes should:

- take effect as soon as possible, to quickly bring about a better balance and operation to the intellectual property system;
- not unduly prejudice users of the system, particularly with respect to not affecting rights granted prior to implementation of the changes, or making incorrect a decision of the Commissioner made prior to the changes; and
- give applicants control and certainty over whether the old or new rules apply to their patent application.²⁷

The options below provide a range of possible transitional approaches to the proposals for reformed requirements for inventive step and technical features discussed above.

Options

In this section, three distinct options are presented in relation to transitional arrangements for the amended inventive step requirements:

- Option TA-1: Changes affect all patent applications without a first examination report
- Option TA-2: Changes affect all patents applications without an examination request
- Option TA-3: Changes affect all newly filed patent applications

Option TA-1: Changes affect all patent applications without a first examination report

Under this option, the proposed changes to inventive step and technical features would apply to all applications that have not had a first examination report issued before the date of commencement. This option allows the changes to take effect quickly, and does not impact any rights granted prior to the commencement, or rights resulting from applications whose examination has begun prior to commencement. It does not provide much opportunity for applicants to decide whether they wish to proceed under the new requirements, and places the triggering event outside the applicant’s control.

In addition:

- If Option TF-3 is chosen for technical features, for applications that are already filed, an additional notification would need to be sent by IP Australia asking the applicant to fulfil the requirements for technical features under those options within a set time period. This would be to ensure the applications are fit for examination under the new proposed requirements.

²⁷ Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 Explanatory Memorandum, Item 55.

- If Option TF-1 is chosen for technical features, this transitional approach may be unsuitable. This is because applications may not be able to be amended under section 40 to identify the technical features of the invention after they have been filed. An applicant should not lose their rights because the specification does not identify the technical features when the requirement was not law at the time they filed and they have no ability to amend the application to comply with the new law.

Option TA-2: Changes affect all patent applications without an examination request

Under Option TA-2, the proposed changes to inventive step and technical features would apply to all patents applications with an examination request date on or after the date of commencement.

This approach was followed for the Raising the Bar reforms. This option provides time for applicants to adapt to the change, and will not impact any rights granted prior to commencement, or any rights resulting from applications where examination was requested prior to commencement. By aligning the changes to substantive patentability requirements to the request for examination, applicants will have some opportunity (during the period prior to commencement by proclamation) to decide whether they wish to have their patent assessed under the new requirements.

An increase in filings and requests for examination is likely before commencement of this option which may impact the workload and future work planning for IP Australia. In addition, the changes will not come into effect as quickly as for Option TA-1.

As per Option TA-1:

- If Option TF-3 is chosen for technical features, for applications that are already filed, an additional notification would need to be sent by IP Australia asking the applicant to fulfil the requirements for technical features under those options within a set time period. This would be to ensure the applications are fit for examination under the new proposed requirements.
- If Option TF-1 is chosen for technical features, this transitional approach may be unsuitable. This is because applications may not be able to be amended under section 40 to identify the technical features of the invention after they have been filed. An applicant should not lose their rights because the specification does not identify the technical features when the requirement was not law at the time they filed and they have no ability to amend the application to comply with the new law.

This is considered to be less of a risk than for Option TA-1, as applicants will have control of the progress of their application and be able to request examination prior to commencement of the reforms.

Option TA-3: Changes affect all newly filed patent applications

Under Option TA-3, the proposed changes to inventive step and technical features will apply to patent applications with filing dates on or after the date of commencement.

This option aligns the changes to substantive patentability requirements to the filing date which means only new filings from commencement will be examined under the new requirements.

Although this option provides the most time for applicants to fully adapt to the changes, it also allows for the continued grant of patents for a substantial amount of time under the current standards, which would appear contrary to the PC's intention.

Questions for consultation

- P1 Which options under Parts 1, 2 and 3 do you prefer and why?
- P2 What are other possible benefits and disadvantages of options under each part, including any unintended consequences?
- P3 Are there any other better options that have not been considered?
- P4 Should Option IS-3 as proposed under Part 1 (inventive step) also include amendments to grounds to re-examine or to oppose grant of standard patent? Are there any other implications not considered?
- P5 Does your preferred option under Part 2 (technical features) depend on the option that is chosen for Part 1 (inventive step)? If so, please explain.
- P6 As noted above, for the purposes of novelty, the Commissioner already disregards features that do not materially affect the way the invention works.²⁸ Do you foresee any problems with maintaining this approach?

²⁸ Patents Manual of Practice and Procedure 2.4.8.4

Attachment A – Assessing inventive step

Overview

Fundamentally, the inventive step requirement in all major jurisdictions considers whether a claimed invention is obvious to a hypothetical skilled person and asks what that person would do given assumed skills and knowledge relevant to the particular circumstances of the case. The assumed skill and knowledge incorporates what is the common general knowledge in the art, and the prior art base. However, approaches do vary between jurisdictions and the current Australian and EPO approaches are detailed below.

Australian approach to assessing inventive step

Section 7(2) of the *Patents Act 1990* (Patents Act) provides the statutory basis to assess inventive step during patent examination, re-examination, opposition and court proceedings. An excerpt of the section states:

...an invention is taken to involve an inventive step when compared with the prior art base unless the invention would have been obvious to a person skilled in the relevant art in the light of the common general knowledge as it existed (whether in or out of the patent area) before the priority date of the relevant claim, whether that knowledge is considered separately or together with the information mentioned in subsection (3).

Information for the purposes of inventive step according to section 7(3) of the Patents Act is:

- a. any single piece of prior art information; or
- b. a combination of any two or more pieces of prior art information that the skilled person could, before the priority date of the relevant claim, be reasonably expected to have combined

There are two elements to the assessment of the inventive step in Australia: determination of the relevant prior art; and application of the test of whether the skilled person would find the invention obvious in the light of that prior art.

The prior art information is construed by the skilled person in light of the common general knowledge as it existed at the priority date of the claims being examined.²⁹

The test for inventive step is fundamentally whether the skilled person faced with the same problem would have taken, as a matter of routine, whatever steps might have led from the prior art to the invention, whether they be the steps of the inventor or not.³⁰ The High Court endorsed the approach to considering this question as:

*"would the notional research group, at the relevant date, in all the circumstances, which include a knowledge of the relevant prior art... be **directly led as a matter of course** to try [the claimed invention] in the expectation that it **might well** produce a useful [result]"* (emphasis in original).³¹

Problem and solution approach to inventive step

An approach generally used by the Australian courts and by the Commissioner of Patents to consider these factors in examination, and to help avoid ex post facto analysis is the problem-solution approach endorsed by the Australian courts³² (which has differences to the EPO problem-and-solution approach, see below).

²⁹ The disclosure of a citation (being the information set out in s 7(3)(a) or (b)) may be effectively extended by having regard to common general knowledge in the art as established in the period between the publication date of the citation and the priority date of the claim under consideration.

³⁰ *Wellcome Foundation (1981)* 148 CLR 262 at 286

³¹ *Aktiebolaget Hassle v Alphapharm Pty Ltd* [2002] HCA 59 at [53];

The Australian problem-solution approach is based on the question of whether the claimed invention would have been obvious to a person skilled in the relevant art when faced with a particular problem that the invention solves. The problem-solution approach also ensures that the decision maker's consideration of whether a claim lacks an inventive step:

- a. is valid and sustainable; and
- b. identifies all the issues relevant to establishing lack of inventive step.

EPO approach to assessing inventive step

Article 56 of the European Patent Convention (EPC) defines that:

An invention shall be considered as involving an inventive step if, having regard to the state of the art, it is not obvious to a person skilled in the state of the art.

The state of the art is defined under Article 54(2) of the EPC and comprises:

...everything made available to the public by means of a written or oral description, by use, or in any other way, before the filing or priority date of the European patent application.

The problem-and-solution approach is used almost universally at the EPO as a tool to determine inventive step. Over the years, there has been extensive case law from the Technical Boards of Appeal of the EPO concerning the correct way to use this approach. This approach involves the following main steps:

1. determine the closest prior art,
2. establish an 'objective technical problem' (in the light of that prior art) to be solved, and
3. consider whether the claimed invention, starting from the closest prior art and the problem to be solved, would have been obvious to the skilled person.

The approach is seen as a way to provide a level of objectivity in the assessment of inventive step, and avoid ex post facto analysis.³³ While the problem-and-solution approach aims to provide a predictable outcome of patent prosecution, this approach may be unsuitable for some inventions, including where the invention lies in the identification of the problem, or where there is no single piece of closest prior art.³⁴

1. What is the Closest Prior Art?

The decisions of the EPO provide that the 'closest prior art' for assessing inventive step should normally be a prior art document disclosing subject-matter conceived for the same purpose or aiming at the same objective as the claimed invention and having the most relevant technical features in common, i.e. requiring the minimum of structural modifications to achieve the claimed invention.

Where more than one document is cited as prior art, the closest is that which provides the skilled person with the most promising springboard to the invention, i.e. the one starting from which the subject-matter of the invention is rendered most obvious.³⁵

2. What is the technical problem to be solved?

In the EPO guidelines for examination, the technical problem (often referred to as the 'objective technical problem') is described as:

³² HPM Industries Pty Ltd v Gerard Industries Ltd 98 CLR 424

³³ EPO guidelines for examination, part G, chapter VII.

³⁴ [T 465/92 \(OJ 1996,32\)](#) where the the board did not take the problem and solution approach when assessing inventive step, and said this was merely one possible approach, with advantages and drawbacks.

³⁵ [T 656/90](#), [T 824/0](#), [T 1755/07](#), [T 698/10](#).

... the aim and task of modifying or adapting the closest prior art to provide the technical effects that the invention provides over the closest prior art.

A technical problem may be regarded as being solved only if it is credible that substantially all claimed embodiments exhibit the technical effects upon which the invention is based.

According to the EPO guidelines, formulation of the technical problem to be solved by the invention requires an objective determination of the technical and structural features that distinguish the invention from the closest prior art. Features that cannot be seen to make any contribution, either independently or in combination with other features, to the solution of a technical problem, are not relevant for assessing inventive step. This inherently excludes non-technical features from consideration since (according to this approach) non-technical features cannot solve a technical problem.

The EPO guidelines further note that the expression 'technical problem' should be interpreted broadly; it does not necessarily imply that the technical solution is an improvement to the prior art. Thus the problem could be simply to seek an alternative to a known device or process that provides the same or similar effects or is more cost-effective.

3. Is the claimed invention obvious?

Lastly, to determine whether the claimed invention is obvious the EPO approach requires the examiner to assess whether there is any teaching in the prior art as a whole that *would* (not *could*) have prompted the skilled person, faced with the objective technical problem, to modify or adapt the closest prior art and arrive at something falling within the claim, thus achieving what the invention achieves.

The answer to the question of what a skilled person would have done depends in large measure on the technical result they had set out to achieve. In other words, the notional 'person skilled in the art' is assumed to act not out of idle curiosity but rather with a specific technical purpose in mind.³⁶ In determining what the skilled person would have done, the examiner is allowed to take into account the teaching of other items of prior art, as well as the knowledge, skill and experience of the skilled person in the art.

Differences between EPO and Australian problem and solution approach

Although both the EPO and Australia use a problem and solution approach, the approaches differ in some details of how they assess inventive step, which can lead to different outcomes between the two jurisdictions.

At the EPO, the first step is the identification of the closest prior art. The problem is then considered to reside in the technical difference between the closest prior art and the claims in question. In Australia, the problem is determined from a reading of the specification and on the basis of the invention so far as claimed in any claim (understood by a skilled person, armed with the common general knowledge).³⁷ The presence or absence of an inventive step between the prior art and the claimed invention is only considered once the problem has been established and the relevant prior art identified.

Also, the problem in the EPO must be a technical problem, while the non-technical features that provide a point of difference between the closest prior art and the claim are disregarded. In Australia, the claim must be construed as a whole when assessing whether it involves an inventive step.³⁸

³⁶ Decision of the Technical Boards of Appeal **T 939/92** (OJ 1996, 309)

³⁷ *AstraZeneca AB v Apotex Pty Ltd* [2014] FCAFC 99

³⁸ *MPP 2.5.1.6* Assessing Inventive Step in Examination

Introducing an objects clause into the *Patents Act 1990*

Introduction

This paper discusses proposed amendments to the *Patents Act 1990* (the Patents Act) to introduce an objects clause.

The purpose of this paper is to encourage discussion and seek views on the proposed amendments.

IP Australia invites interested parties to make written submissions in response to the questions presented in this paper by **Friday, 17 November 2017**.

IP Australia will consider the submissions, and undertake further consultation during the legislation drafting process.

Written submissions should be sent to consultation@ipaustrialia.gov.au.

For accessibility reasons, please submit responses by email in Word, RTF, or PDF format.

The contact officer is Lisa Bailey, who may be contacted on (02) 6222 3695, or via email on Lisa.Bailey@ipaustrialia.gov.au.

This paper is also available at:

www.ipaustrialia.gov.au/about-us/public-consultation

Submissions should be received no later than 17 November 2017.

Background

An objects clause is a provision, usually found at the beginning of legislation, which gives readers a general understanding of its purpose, or sets out general aims or principles that help readers to interpret its detailed provisions. According to the *Acts Interpretation Act 1901*, the interpretation that would best achieve the purpose or object of the Act is to be preferred to each other interpretation (whether or not that purpose or object is expressly stated in the Act). An objects clause provides additional clarity and guidance to the community on the purpose of legislation, assists the courts in interpreting the legislation, and can be used to resolve uncertainty and ambiguity.

ACIP review

In 2010, the then Advisory Council on Intellectual Property (ACIP) recommended the introduction of an objects clause in the Patents Act to 'clarify the interaction between the patent system and competition policy'.³⁹ In November 2011, the Australian Government accepted ACIP's recommendation on the basis that a statement of objectives in the Patents Act would provide a clear statement of legislative intent for the guidance of the courts in the interpretation of the Act. This has not yet been implemented.

IP Australia's initial public consultation

In July 2013, IP Australia released a consultation paper seeking interested parties' views on the wording of the objects clause.⁴⁰

The consultation paper proposed two options:

³⁹ Advisory Council on Intellectual Property (ACIP), *Patentable Subject Matter (2010)*, page 3, Recommendation 1.

⁴⁰ Details of the 2013 consultation can be found at IP Australia's [website](#).

- The wording proposed by ACIP in its review of patentable subject matter⁴¹ – the objects clause ‘should describe the purpose of the legislation as being to provide an environment that promotes Australia’s national interest and enhances the well-being of Australians by balancing the competing interests of patent rights holders, the users of technology, and Australian society as a whole’ (Option 1).
- A modified version of ACIP’s wording – ‘The purpose of the patent system is to provide an environment that enhances the well-being of Australians by promoting innovation and the dissemination of technology and by balancing the competing interests of patent applicants and patents owners, the users of technology, and Australian society as a whole’ (Option 2).

Of the 24 public submissions received, opinions were mixed. No one supported Option 1. About half preferred option 2 with reservations. Some concerns and issues raised include:

- an objects clause is neither necessary nor helpful;
- any objects clause should be consistent with international requirements including with TRIPS wording, and reflect the international nature of the modern IP system;
- the reference to ‘competing’ interests misrepresents reality and unduly prejudices patent holders. ‘Competing’ should be deleted from ‘competing interests’ in the balancing statement; and
- neither option accurately identifies all stakeholders of the patent system. Stakeholders include inventors, competitors, downstream users of the technology and consumers of products that incorporate the technology.

Developments since IP Australia’s previous consultation

Since the 2013 consultation there have been some international and domestic developments.

New Zealand Patents Act

The New Zealand Parliament has passed new patents legislation (*New Zealand Patents Act 2013*), which came into effect on 13 September 2014. It implemented a comprehensive purposes clause as follows:

Section 3 Purposes

The purposes of this Act are to—

- (a) provide an efficient and effective patent system that—
 - (i) promotes innovation and economic growth while providing an appropriate balance between the interests of inventors and patent owners and the interests of society as a whole; and
 - (ii) complies with New Zealand’s international obligations; and
- (b) ensure that a patent is granted for an invention only in appropriate circumstances by—
 - (i) establishing appropriate criteria for the granting of a patent; and
 - (ii) providing for procedures that allow the validity of a patent to be tested; and
- (c) provide greater certainty for patent owners and the users of patented inventions that patents will be valid after they are granted; and
- (d) address Māori concerns relating to the granting of patents for inventions derived from indigenous plants and animals or from Māori traditional knowledge; and
- (e) ensure that New Zealand’s patent legislation takes account of developments in the patent systems of other countries; and

⁴¹ Advisory Council on Intellectual Property (ACIP), [Patentable Subject Matter \(2010\)](#), page 5, Recommendation 2.

(f) regulate the provision of patent attorney services by giving effect to the joint registration regime with Australia.

The New Zealand objects clause emphasises the Act should provide for an efficient and effective system that balances the interests of patent owners and society. The clause also emphasises the importance of ensuring patents are only granted in appropriate circumstances.⁴² To date, there has not been a court decision and it is too early to ascertain the effectiveness of this clause.

PC Review

In 2016, the Productivity Commission (PC) completed a public inquiry into Australia's intellectual property arrangements. In its final report, the PC also recommended that the Australian Government should incorporate an objects clause into the Patents Act.

The PC discussed the previous 2013 consultation undertaken by IP Australia on the objects clause, as well as submissions that it had received during its inquiry.

The PC stated that an objects clause would provide a number of benefits⁴³, as follows:

- It would help to ensure that decisions in the application and design of the Patents Act are consistent over time with a well-functioning IP system.
- It would help clarify the context for compulsory licensing, and the considerations that should guide a court.
- It could be useful in underpinning decisions on whether to grant a patent. This is important given the scope for administrative and judicial interpretation to diverge over time from the intent of policy.
- It would influence the granting of patents through the interpretation of the patent criteria, including the manner of manufacture test. At the margin, it would help to improve the likelihood that decisions align with policy objectives. The PC noted that in the *Myriad* case⁴⁴ the High Court showed that it was willing to account for policy factors when considering the patentability of an invention.
- The broad guiding principles in an objects clause would also help ensure the system remains adaptable and fit-for-purpose as technologies emerge and economies and business models evolve, and would help frame policy debates and reform.
- Finally, by enshrining the core economic principles that underpin a well-functioning IP system, an objects clause could help shield the system against further expansion in the scope and strength of rights, and guide disputes over the intent of future legislative change.

The PC concluded that any short-term uncertainty from the introduction of an objects clause would be preferable to the alternative scenario where outcomes are certain but impose net costs on the community. Overall, the PC considered that the benefits from introducing an objects clause would exceed the costs.

⁴² Productivity Commission 2016, *Intellectual Property Arrangements*, Inquiry Report No. 78, Canberra, page 217.

⁴³ Productivity Commission 2016, *Intellectual Property Arrangements*, Inquiry Report No. 78, Canberra, pages 217-218.

⁴⁴ *D'Arcy v Myriad Genetics Inc* [2015] HCA 35 [at 28].

Therefore the PC recommended that the Australian Government should incorporate an objects clause into the Patents Act. In its report, the PC noted that it had refined the proposed objects clause to more closely reflect the TRIPS objectives, as follows:

...enhancing the wellbeing of Australians by promoting technological innovation and the transfer and dissemination of technology. In so doing, the patent system should balance over time the interests of producers, owners and users of technology.⁴⁵

The Government supported the PC's recommendation in August 2017 on the basis that a statement of objectives in the *Patents Act 1990* would provide a clear statement of legislative intent for the guidance of the courts in the interpretation of the Act. The Government indicated that further consultation would occur on the precise wording of the clause, and options are presented below for this purpose.

Options on objects clause

The PC's recommended approach is proposed as **Option A** for the objects clause.

Option A

The purpose of the legislation is to enhance the wellbeing of Australians by promoting technological innovation and the transfer and dissemination of technology. In so doing, the patent system should balance over time the interests of producers, owners and users of technology.

Option A addresses the previous concern on 'competing' interests among stakeholders of the patent system, however its balancing statement lacks the inclusion of the public interest. While producers, rights owners and users of technology are important stakeholders of the patent system, the interests of the public, or of society as a whole, have not been mentioned. While reference is made to the wellbeing of Australians, there is an assumption that wellbeing is inherently enhanced as a result of the promotion of technological innovation and the transfer and dissemination of technology. The wording does not consider the rare case where promoting technological innovation and the transfer and dissemination of technology might not be in the interest of society as a whole⁴⁶.

The wording of Option A may lead to confusion, as the 'patent system' is an international one, while the Australian patents legislation is limited in its scope to the patent system in Australia.

Another possible concern with Option A relates to the principal purpose of the legislation to enhance 'the wellbeing of Australians'. This could be interpreted by some to suggest that the proposed objects clause requires Australian courts to give Australian interests preferential treatment. A counter-argument to this interpretation is that the reference to promoting wellbeing of Australians does not mean that Australians get preferential treatment, but that the standard of living in Australian society is enhanced by a patent system that fulfils the objectives that the clause sets out. Indeed, enhancing the wellbeing of Australia's neighbours promotes Australia's national interests by contributing to sustainable economic growth and poverty reduction in our region⁴⁷. Nevertheless, other countries that have an objects clause in their patents legislation⁴⁸ do not include reference to national interest or wellbeing. It may therefore be appropriate to consider alternative wording which removes the explicit reference to 'the wellbeing of Australians'.

⁴⁵ Productivity Commission 2016, Intellectual Property Arrangements, Inquiry Report No. 78, Canberra, page 33, Recommendation 7.1.

⁴⁶ See for example Chapter 15 of *the Patents Act 1990*, which contains special provisions relating to associated technology (subsection 4(1) of the *Nuclear Non-Proliferation (Safeguards) Act 1987*).

⁴⁷ See the Australian Government's development policy at <http://dfat.gov.au/aid/pages/australias-aid-program.aspx>.

⁴⁸ For example [Article 1 of the Patent Act 1959](#) of Japan, [Article 1 of the Patent Act 1961 of the Republic of Korea](#); and [Article 1 of the Patent Law of the People's Republic of China 1984](#)

Therefore, in an attempt to address some of the possible issues that might arise with Option A, and to balance feedback from previous consultation and the current PC recommendation, we propose Option B below.

We propose that the Explanatory Memorandum to a Bill containing an objects clause will clarify that the statement of objectives would provide a clear statement of legislative intent for the guidance of the courts in the interpretation of the Act.

Option B

The purpose of this Act is to provide a patent system in Australia that enhances the wellbeing of society by promoting technological innovation and the transfer and dissemination of technology. In so doing, the patent system should balance over time the interests of producers, owners, users of technology, and the public.

Questions for consultation

OC1 Do you have a preference for one of the options proposed for the objects clause?

- If so, please explain the reasons for your preference.
- If you disagree with the wording of these options, please explain which elements you disagree with and why.

Crown Use of Patents and Designs

Introduction

This paper discusses proposed amendments to the *Patents Act 1990* (the Patents Act) to

- clarify the purposes for which Crown use of patents may be invoked; and
- introduce transparency and accountability measures for Crown use.

The purpose of this paper is to encourage discussion and seek views on the proposed amendments.

IP Australia invites interested parties to make written submissions in response to the questions presented in this paper by **Friday, 17 November 2017**.

IP Australia will consider the submissions, and undertake further consultation during the legislation drafting process.

Written submissions should be sent to consultation@ipaaustralia.gov.au.

For accessibility reasons, please submit responses by email in Word, RTF, or PDF format.

The contact officer is Lisa Bailey, who may be contacted on (02) 6222 3695, or via email on Lisa.Bailey@ipaaustralia.gov.au.

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Submissions should be received no later than 17 November 2017.

Background

Crown use is a mechanism in the *Patents Act 1990* (Patents Act) and the *Designs Act 2003* (Designs Act) that allows Australian Federal, State and Territory governments to access and use patented technology and registered designs without the authorisation of the patentee or registered owner. The Crown use provisions in s.163-170 of the Patents Act and s.93-105 of the Designs Act⁴⁹ set out the circumstances in which governments, and third parties authorised by governments, can use a patented invention or registered design for the services of the Commonwealth or the State.⁵⁰ The existence of Crown use provisions provides a safeguard to ensure the patent and design systems do not impede governments from acting in the public interest.

Crown use has rarely been used in Australia, with only two cases – both concerning patents – contested before the courts. Otherwise, data is difficult to obtain as uncontested use is not normally reported. While the provisions appear to be rarely used, previous reviews have suggested that their availability may facilitate agreement in voluntary licencing negotiations.⁵¹

A number of reviews have recognised problems with, and proposed amendments to, the existing Crown use provisions including:

- Australian Law Reform Commission (ALRC), 2004, *Genes and Ingenuity: Gene Patenting and Human Health*

⁴⁹ These provisions also apply to designs which have been filed in anticipation of registration.

⁵⁰ The term “State” includes the Australian Capital Territory, the Northern Territory, and Norfolk Island, for the purposes of exploitation of the patent by the Crown: *Patents Act 1990* (Cth), Schedule 1.

⁵¹ Productivity Commission, 2013, Inquiry Report 61, *Compulsory Licensing of Patents*, p. 167.

- Advisory Council on Intellectual Property (ACIP), 2005, *Review of Crown Use Provisions for Patents and Designs*
- Senate Community Affairs References Committee, 2010, *Inquiry into Gene Patents*
- Productivity Commission Inquiry Report, 2013, *Compulsory Licensing of Patents*

The Productivity Commission (PC), building on the earlier reviews, proposed two key reforms:

- To reduce uncertainty about the scope of Crown use, the Patents Act should be amended to make it clear that Crown use can be invoked for the provision of a service that the Australian, State and/or Territory Governments have primary responsibility for providing or funding.
- To improve transparency and accountability, governments should be required to first seek a negotiated outcome, and publicly state the reasons for invoking Crown use in advance, except in emergencies. Governments should in all cases be required to obtain Ministerial approval to invoke Crown use, and be subject to the same pricing principles as for compulsory licensing.

The Crown use provisions in the Designs Act are currently aligned with those in the Patents Act. While the terms of reference for the PC inquiry were limited to patents, the earlier ACIP review considered both patents and designs.

A separate 1995 ALRC review of the designs system recommended repealing Crown use provisions for designs, but this was not accepted, as various Commonwealth and State agencies considered that it was important to maintain discretion to use a design, subject to payment of compensation, for reasons including defence and security needs.⁵² It is also entirely possible that a government may seek Crown use of a product which is subject to both a registered design and a patent.

In response to the 2013 PC Report, the Labor government at the time put forward amendments to the Patents Act, as part of the *IP Laws Amendment Bill 2013* (the 2013 Bill). During debate of the 2013 Bill and the subsequent inquiry by the House of Representatives Standing Committee on Social Policy and Legal Affairs, stakeholders raised a number of concerns with the proposed amendments to Crown use, including:

- that the requirement for ministerial oversight could hinder Crown use, making it even more unlikely that the provisions would be used;
- that the proposed method of remuneration for Crown use was inadequate and did not fully account for the costs to the IP owner;
- that the scope of the amendments may be incompatible with *Australia-United States Free Trade Agreement* (AUSFTA) requirements; and
- that the amendments lacked detailed consideration and consultation.

While the 2013 Bill passed the House of Representatives, it lapsed following the dissolution of Parliament prior to the 2013 federal election.

Following the 2013 election, the Government introduced the *IP Laws Amendment Bill 2014* (the 2014 Bill). Amendments to the Crown use provisions were not included, as there was insufficient time for further consultation. During debate of the 2014 Bill in the House of Representatives, Adam Bandt MP (Greens) introduced his own amendments to the Bill, effectively introducing amended Crown use provisions. The Bandt amendments share some features with the Crown use amendments in the 2013 Bill, discussed below. The 2014 Bill was passed by the House and Senate without the Bandt amendments, and so no changes were made to the Crown use provisions.

Further consideration of the PC recommendations on Crown use and compulsory licensing provisions was put on hold pending the decision of the High Court in *D'Arcy v Myriad Genetics Inc*,⁵³ and the release of the 2016 Productivity Commission Inquiry into Australia's Intellectual Property Arrangements (2016 PC Inquiry).

⁵² Australian Law Reform Commission, Report No 74 – *Designs*, 1995, [7.23]-[7.28].

⁵³ *D'Arcy v Myriad Genetics Inc*. [2015] HCA 35

The ruling in the *D'Arcy v Myriad* case made it clear that isolated gene sequences are not patentable which brought to an end a period of legal uncertainty. Prior to the High Court's decision, the Australian Government had been considering how patent safeguards – including Crown use – could be used to mitigate any negative effects of isolated gene sequence patents. The 2016 PC Inquiry did not make any additional recommendations on Crown use.

Problem

A number of reviews have recognised problems with the existing Crown use provisions.

Issue 1: Entities empowered to invoke Crown use

According to the ACIP and PC reviews, a number of entities could potentially qualify as “the Crown” including employees, commissions, statutory authorities, statutory corporations, and private corporations under contract to the government. This potentially ambiguous definition of “the Crown” could result in organisations being mistaken about whether or not they qualify as the Crown. The ALRC also raised concerns about the ambiguity surrounding some research institutes.⁵⁴ As a consequence, a body may gain an unfair competitive advantage in the marketplace by invoking the Crown use provisions to which it is not entitled. Additionally, government entities may have elected not to invoke Crown use in the past because of the uncertainty that “the Crown” may be construed narrowly by the courts, even though the public may have expected the government to intervene.

Issue 2: The purposes for which Crown use may be invoked

Section 163 of the Patents Act and s.96 of the Designs Act provide exceptions to infringement of a patent or design where the invention concerned is exploited by the Commonwealth or a State (or by a person authorised in writing by the Commonwealth or a State), for the services of the Commonwealth or the State. However, some have argued that it is unclear what circumstances would be considered “for the services of the Commonwealth or the State”. The PC reported some uncertainty among stakeholders as to whether “for the services” of the government would extend to non-government service providers in areas that are traditionally the responsibility of government. This uncertainty exists notwithstanding the ability of the Commonwealth or a State to authorise third parties and may be an impediment to the effective use of the Crown use provisions.⁵⁵

Issue 3: Accountability in the application of Crown use provisions

Both ACIP and the PC identified a need to strengthen the transparency and accountability of the Crown use provisions. The 2005 ACIP review considered that the broad nature of the power, the absence of a defined process for its application, and the potentially wide interpretation of “the Crown” highlighted the risk that the Crown use provisions may be abused, or perceived to be abused, which can have adverse consequences for patent owners. ACIP also noted that the lack of accountability weakened the bargaining power of the IP owner and may result in unfair terms being imposed on the IP owner.⁵⁶

The PC agreed with ACIP, and noted that compared to compulsory licensing of patents – which is subject to judicial oversight – there are less formal checks and balances on Crown use which operate to ensure that it is invoked only in exceptional circumstances, and under fair terms.⁵⁷

⁵⁴ Australian Law Reform Commission, 2004, *Genes and Ingenuity: Gene Patenting and Human Health*, at [26.33]-[26.35].

⁵⁵ For example, the Department of Health did not utilise the Crown use provisions to provide better and/or cheaper access to the breast cancer gene test patented by Myriad Genetics, despite pressure from some stakeholders: House of Representatives Standing Committee on Social Policy and Legal Affairs: *IP Laws Amendment Bill 2013*, Official Hansard of 6 June 2013, per Dr Luigi Palombi, p.13. See also Productivity Commission, 2013, *Inquiry Report 61, Compulsory Licensing of Patents*, p. 170-174.

⁵⁶ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.8.

⁵⁷ Productivity Commission, *Compulsory Licensing of Patents*, 2013, p.175.

Issue 4: Transparency in the process of invoking Crown use

Section 164 of the Patents Act and s.97 of the Designs Act provide that an IP owner must be notified as soon as is practicable *after* exploitation of the patent or design by the Crown has occurred. There is no requirement for the Crown to obtain consent or inform the IP owner of any intention to use a patented invention or registered design prior to Crown use occurring. This creates a lack of transparency and certainty for IP owners.

In its 2005 review of the Crown use provisions, ACIP noted that stakeholders had given anecdotal evidence that the provisions had been used as a lever during negotiations. This was of particular concern to ACIP considering the disproportionate bargaining power between the Crown and the IP owner, which may result in unfair terms for the IP owner.⁵⁸

ACIP also found that the lack of prior consent or requirement to provide reasons for exploiting the patent could undermine confidence in the IP system and business certainty of rights holders. ACIP supported the views of stakeholders that an IP owner needs information concerning the exploitation as soon as possible to minimise any commercial losses, and to ensure other business decisions can be made with certainty. Further, the Crown should seek to be open and transparent in its dealings with rights holders. Only in exceptional circumstances should the Crown seek to use a patent or design and address issues of consent and remuneration later.⁵⁹

The PC supported this view, noting that the increased transparency and certainty would better protect the IP owner's rights.⁶⁰ The PC also noted that the lack of any prior consent was inconsistent with the compulsory licensing provisions of the Patents Act, which require that an applicant seeking a compulsory licence must have tried for a reasonable period, without success, to obtain authorisation to work the invention on reasonable terms and conditions.⁶¹

Issue 5: Remuneration

Section 165 of the Patents Act and s.98 of the Designs Act provide that the terms for the exploitation of the invention or design (including remuneration) are such terms as are agreed, or determined by a method agreed, between the relevant authority and the IP owner or, in the absence of agreement, as are determined by a court. No guidance is given on how remuneration is to be determined. ACIP considered that this placed IP owners at a disadvantage in negotiating terms of use with the Crown, due to the much stronger bargaining position which the Crown holds. This was particularly the case for small and medium enterprises, which did not have the negotiating power or skills of large businesses.⁶² These provisions contrast with the standard for remuneration in place for compulsory licenses – which is currently “just and reasonable having regard to the economic value of the invention”.

Issue 6: International obligations

Article 17.9.7 of AUSFTA limits the use of a patented invention without authorisation (other than use allowed under Articles 17.9.3 and 22.2 of AUSFTA and Article 30 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)) to specific situations, including measures taken for the protection of essential security interests, and remedying anti-competitive behaviour, public non-commercial use, national emergency, or other circumstances of extreme urgency. There are no analogous restrictions regarding designs.

During consultation on the 2013 Bill, stakeholders raised concerns that the proposed amendment could be inconsistent with AUSFTA. For example, the Law Council of Australia (LCA) submitted that the proposed

⁵⁸ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.33.

⁵⁹ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.17.

⁶⁰ Productivity Commission, *Compulsory Licensing of Patents*, 2013, p.178.

⁶¹ *Patents Act 1990* (Cth), s.133(2)(a)(i).

⁶² Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.28.

scope of the provision may extend to commercial activities, and would therefore be inconsistent with AUSFTA.⁶³

Options for reform

Option 1: Public education and awareness

Under this option, IP Australia would undertake public education and awareness activities. For example, the organisation could publish an explanatory document that outlines circumstances in which the Crown use provisions may be employed, and raise awareness of the provisions with relevant stakeholders. While this option may increase awareness of the existing Crown use provisions and could provide some clarity around when Crown use can be invoked, issues around transparency and accountability would remain. It is also unlikely to address concerns stakeholders have raised about the uncertainty around the scope of Crown use and corresponding legal risk in authorising non-government service providers.

Public education and awareness activities have been undertaken in the past. The government did not respond to the 2005 ACIP Review. Instead, the then Minister for Innovation, Industry, Science and Research wrote to relevant Commonwealth, State and Territory Ministers in March 2009 to raise awareness of government rights and obligations under the provisions. IP Australia also developed a public information sheet highlighting the Crown's rights and obligations, and the rights of intellectual property owners under the provisions. However, these actions do not appear to have alleviated concerns.

Option 1 is not preferred. Although this option would increase awareness of the existing provisions and may provide some clarification of how they are to be applied, it will also leave key issues of scope and transparency unaddressed.

Option 2: Amend the Crown use provisions of the Patents Act and Designs Act

Three approaches to amending the Crown use provisions of the Patents Act have been considered.

In each of the approaches under Option 2, it is envisaged that the Designs Act would also be amended to maintain consistency in Crown use between the two IP rights. This would result in consistency between patents and designs legislation and would preserve the ability to invoke Crown use over an object which is subject to both a patent and a registered design.

Option 2(a): Implement the Productivity Commission's Recommendations

Under this option the Patents Act would be amended to implement Recommendations 7.1 and 7.2 in the 2013 PC report *Compulsory Licensing of Patents*.

The amendments drafted for the 2013 Bill were proposed to implement these recommendations. These amendments comprised:

- Amending s.163 of the Patents Act to clarify that Crown use can be invoked for the provision of a service that the Commonwealth, State or Territory Governments have the primary responsibility for providing or funding.
- Amending s.164 of the Patents Act to introduce a process of ministerial oversight. This would require:
 - the Crown to attempt to negotiate use of the patented invention prior to invoking Crown use;
 - the Crown to provide the patentee with a statement of reasons no less than 14 days before such use occurs; and
 - Crown use to be approved by a Minister (the Federal Minister with responsibility of the Patents Act or State Attorneys-General).

The PC also proposed that the first two requirements would be able to be waived in the case of an emergency. However, the PC recommended that in all cases patentees should be provided with immediate notice that their patents have been used, and a statement of reasons as soon as practical thereafter. Guidance on what constitutes “immediate notice” and “as soon as practical thereafter” would be provided in an Explanatory Memorandum to the amendments. The Minister would also be empowered to make multiple authorisations in the one instrument (for example, to cover all patents subsisting in a required product).

This option would have the effect that the infringement defence provided by s.163 would only apply where Ministerial approval had been obtained in advance of the exploitation.

- Amending s.165 of the Patents Act to state that remuneration to be paid to the patentee will be on the same basis as that for a compulsory licence.

The amendments proposed by the PC in 2013 sought to align the remuneration standard for Crown use with that in place for compulsory licences as they existed at the time (just and reasonable compensation, based on the economic value of the licence). However, the PC also recommended amending the remuneration standard for compulsory licensing. The PC’s overall recommendation then was for the remuneration standard for both Crown use and compulsory licensing to be “consistent with the public interest”, having regard to the rights of:⁶⁴

- the IP owner to obtain a return on investment commensurate with the regulatory and commercial risks involved; and
- the public to the efficient exploitation of the invention or design.

The PC’s proposal that the remuneration standard for Crown use be consistent with that for compulsory licensing is not preferred. This is the case whether or not the standard for compulsory licensing is amended.

The current remuneration standard for compulsory licensing is unsuitable for Crown use. In circumstances where Crown use is appropriate to invoke, such as a health crisis, the economic value of the licence is only one of several factors to be taken into account when determining remuneration. The ACIP review considered that including the precise wording of TRIPS on the economic value of the licence would lead to ambiguity on the application of other important matters in determining remuneration for Crown use.

The PC’s recommended remuneration standard for compulsory licensing is also unsuitable for Crown use. Factoring in the IP owner’s rights to a return on investment – and the costs that may represent in emergency situations – may also unduly discourage the exercise of Crown use in circumstances where it is justified. Furthermore, the “efficient exploitation of an invention” is relevant only to the circumstances of compulsory licensing, so this remuneration standard is inappropriate for Crown use.

Option 2(b): Specify services of the Crown in a list

Under this option amendments to the Patents Act would be made as under Option 2(a), except that s. 163 would be amended to specify a list of purposes for which Crown use may be invoked. This list could specify public health measures, defence and other purposes to clarify the scope of Crown use as a limited safeguard to be used only in exceptional circumstances.

Several reports have recommended clarifying the scope of “for the services of the Commonwealth or of a State” to outline specific services to be included. For example, both the Australian Law Reform Commission and the Senate Inquiry into Gene Patents recommended clarifying that an invention is exploited “for the Services of the Commonwealth or of a State” if the exploitation is for the provision of healthcare services or products to members of the public.

This option is not preferred, as it would remove the broad applicability of the provisions, constraining the ability of the government to respond to a range of unforeseen circumstances in which Crown use may be

⁶⁴ Productivity Commission, 2013, Inquiry Report 61, Compulsory Licensing of Patents, pp. 24-25.

justified. Specifying certain purposes would also undermine the technology-neutral nature of the Patents Act and the Designs Act. As noted by the PC, technology-neutrality is desirable because it reduces complexity and therefore overall costs of the patent system. For example, a “public health measure” purpose may be open to contested interpretation when considering Crown use of emerging technologies.

Option 2(c): As per option 2(a), but refine the remuneration standard (preferred option)

Under this option, amendments to the Patents Act and the Designs Act would be made as under Option 2(a), except that the PC’s suggestion for a remuneration standard to be on the same basis as compulsory licensing would be refined, and a different remuneration standard would be introduced as also recommended by ACIP.

Under this option, the remuneration standard, as recommended by the 2005 ACIP Review of Crown use, would provide that remuneration which is “just and reasonable taking into consideration the circumstances of the case” be given to the IP owner where their invention is used under Crown use.⁶⁵ The ALRC report into gene patenting and human health had similarly recommended that remuneration be “just and reasonable”.⁶⁶

This sets a more transparent standard of remuneration than currently exists, but which retains the government’s ability to act in the public interest more easily than it could with a compulsory licence. It is consistent with TRIPS and with the requirement in AUSFTA to provide “reasonable compensation”. It also retains flexibility to take into account all relevant factors, including the economic value of the licence, without placing undue emphasis on any single factor.

ACIP also recommended a specific remuneration process including a prescribed Alternative Dispute Resolution process. The PC thought it doubtful that the benefits of such a mechanism would outweigh the costs. We do not propose implementing that part of the ACIP recommendation on remuneration.

This option is preferred, and is discussed in greater detail under *Proposed Solution* below.

Option 2(d): As per option 2(a), but permit a waiver for Ministerial approval in certain circumstances

Under this option, amendments to the Patents Act and the Designs Act would be made as under Option 2(a), except that the requirement for ministerial approval could also be waived in emergency circumstances. This option would have the result that all three procedural requirements (prior negotiation, statement of reasons and ministerial approval) could be waived where emergency circumstances demand.

Some stakeholders have noted that the PC’s recommendation that prior ministerial approval be required in all circumstances of Crown use may obstruct immediate action by government. Their contention is that requiring organisations to properly brief the Minister in time may place an undue burden on government organisations.

The ACIP 2005 Review recommended that the legislation expressly state the circumstances where an organisation can temporarily waive the requirement for ministerial approval, to include emergencies, situations of urgency, national security situations and situations where a waiver (and not simply the Crown use) is in the public interest.⁶⁷ ACIP also recommended that in order to obtain the protection of the Crown use provisions, as soon as practicable after temporary waiver, the organisation must obtain Ministerial approval, notify the IP rights holder that their IP has been used and commence negotiations following the prescribed statutory remuneration process. A government organisation using the waiver would arguably remain accountable to the Minister in seeking his or her approval as soon as practicably after to substantiate the need for the waiver.

However, the PC strongly advocated ministerial approval in order to clarify who may invoke Crown use provisions as a transparency measure. The PC also considered that the effect of ministerial approval would

⁶⁵ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.33.

⁶⁶ ALRC, *Genes and Ingenuity: Gene Patenting and Human Health*, Report 99, June 2004, p.33.

⁶⁷ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.4.

not be significantly different from the status quo.⁶⁸ It is also unclear what the consequences would be if a Minister declined to approve purported Crown use after it had occurred. Were this to occur, it is likely that the government organisation would lose the protection of the Crown use provisions. This option is therefore not preferred. However, IP Australia is interested in stakeholders' views.

Option 3: Implement the Bandt Amendments

Under this option the Patents Act would be amended to implement the Crown use amendments proposed by Adam Bandt MP (the Greens) in the debate on the 2014 Bill. These amendments comprised:

- Amending s.163 of the Patents Act to define “the services of the government” to include any service that is primarily provided or funded by the Commonwealth and/or one or more States or “research” that is primarily funded by the Commonwealth and/or one or more States;
- Amending s.163 of the Patents Act to introduce a process of ministerial oversight and a prior negotiation requirement, whereby exploitation of an invention is taken to be “for the services of” the Commonwealth or a state provided that:
 - the Crown attempts to negotiate with the patentee prior to invoking Crown use; and
 - instances of Crown use are approved by a Minister and that the patentee be provided with a statement of reasons for the Crown use, no less than 14 days before such use occurs.

The Bandt amendments to introduce prior negotiation, Ministerial approval and a statement of reasons were qualified as being without limiting subsection 163(1). The intention appeared to be that, where these additional steps were taken, the criterion of having exploited the patent “for the purposes of” the Commonwealth or a State would be automatically satisfied. If the Crown did not follow these optional processes, it would have to establish that the exploitation was for such purposes in the event of a dispute.

This approach differs from the PC recommendations in two key aspects:

- The definition of services of the Crown is extended in a similar manner to include services that are primarily provided or funded by the government, but would also include research. This appears to be an attempt to include research tools.
- The requirements for prior negotiation and Ministerial approval remain optional in all circumstances, not just in situations of emergency.

Research tools were specifically excluded from the research exemption in s.119C of the Patents Act. This policy decision was made after extensive research and consultation with stakeholders.⁶⁹ Including research tools in the research exemption would have effectively devalued research tool patents.

The proposal to allow for Ministerial approval, without limiting sub-section 163(1), would provide governments with a mechanism enabling greater certainty on the applicability of Crown use while continuing to limit remedies against governments in cases of inadvertent patent infringement. However, it would not offer the same level of certainty, accountability and transparency to rights holders as the PC recommendation.

The discretionary nature of the process for Ministerial oversight and prior negotiation would address previously raised concerns that this additional oversight may hinder use of the provisions by government due to the additional bureaucracy involved. The PC acknowledged that their proposed reforms would reduce some of the cost and time advantage of Crown use compared to compulsory licensing, but considered the effect would not be significantly different from the status quo.

The PC noted that the proposed reforms to introduce additional oversight were intended to work in tandem with Recommendation 7.1 (to clarify that Crown use can be invoked for the provision of a service

⁶⁸ Productivity Commission, 2013, Inquiry Report 61, *Compulsory Licensing of Patents*, p.180.

⁶⁹ These consultations were conducted as part of the *Intellectual Property Laws Amendment (Raising the Bar) Bill 2012* package of reforms.

that the Australian, State and/or Territory Governments have the primary responsibility for providing or funding). These recommendations are aimed at striking a balance between protecting patent rights, and giving governments and the public confidence that Crown use can be invoked if a patent is unduly preventing community's access to a technology. By making the accountability provisions optional, this balance is lost.

This option is therefore not preferred.

Benefits of Proposed Solution

Option 2(c) is the preferred solution. It addresses uncertainties around when Crown use can be invoked, and the lack of transparency and accountability within the provisions. The outcomes of applying Option 2(c) to the issues outlined on pages 3-5 are presented below.

Issue 1: Entities empowered to invoke Crown use

Clarifying that Crown use can be invoked for the provision of a service that a government has the primary responsibility for providing or funding, in combination with the introduction of Ministerial approval, makes clear that Crown use may be used by any government entity which receives ministerial approval for the purposes of providing that service. Clarifying that "the Crown" is any entity which has the appropriate Ministerial approval avoids the need to specify particular government entities entitled to invoke Crown use. This option also clarifies that government may invoke Crown use for services provided by non-government providers.

Issue 2: The purposes for which Crown use may be invoked

Clarifying that Crown use can be invoked for the provision of a service that the Australian, State, and/or Territory Governments have the primary responsibility for providing or funding, will provide greater certainty around when Crown use can be utilised, without limiting the flexibility of the provisions, and the future ability of governments to invoke them in the interests of the community.

The PC noted its intention that the primary responsibility test would take account of all providers of similar services. This would, for example, mean that genetic testing undertaken by private providers for private patients would be included in an assessment of whether governments have primary responsibility for providing or funding such testing. Given that governments are responsible for providing or funding the vast majority of genetic tests, they would be found to have primary responsibility. As a result, genetic testing would be eligible for Crown use, including when it is undertaken by private providers for private patients. The private providers could be authorised to exercise Crown use on behalf of a government following the same approval process required of government entities.

Issue 3: Accountability in the application of Crown use provisions

Implementing a process of ministerial oversight will ensure that Crown use is only invoked in appropriate circumstances. It will ensure that only the appropriate entities are able to represent the Crown. The increased transparency and clarity provided by the requirement for ministerial oversight will enhance the government's ability to meet the needs of the public in the rare cases where Crown use is invoked, while providing greater certainty to IP owners that the provisions will be used appropriately.

The Minister who will have responsibility for providing approval for Crown use on behalf of the Commonwealth will be the Minister responsible for administering the Patents Act and Designs Act. This is currently the Minister for Industry, Innovation and Science. At the State level, the responsible Minister will be the Attorney-General of the State or Territory.

The Ministerial oversight procedure will build upon requirements that already exist. For example, the government must already inform the IP owner that the invention has been exploited as soon as is practicable. Administrative review legislation provides that the government can be directed to provide reasons for Crown use,⁷⁰ and the IP owner can already apply to the Federal Court for assistance in resolving

⁷⁰ *Administrative Decisions (Judicial Review) Act 1977* (Cth), s.13.

a dispute over remuneration.⁷¹ IP owners may apply to the Federal Court to order a government to cease Crown use on the basis that the exploitation of the invention or design is not necessary for the proper provision of services of the Commonwealth or the State, and where it is fair and reasonable to do so.⁷² A decision to exercise Crown use may also be subjected to judicial review.

Issue 4: Transparency in the process of invoking Crown use

The structured process, including the requirement to negotiate and to provide a statement of reasons prior to exploitation, will provide greater transparency to rights holders. Having a structured process, including a prior negotiation requirement, reduces uncertainty and acknowledges the rights of the IP owner. These steps would be able to be waived in the case of an emergency, allowing the government to act quickly if required.⁷³

The PC, while acknowledging that these reforms would reduce some of the time and cost savings of Crown use, did not believe the effect would be significantly different to the status quo. Similarly, ACIP considered that this process is unlikely to hinder Crown use. A majority of stakeholders who made submissions to the 2005 ACIP Review supported the concept of introducing a structured process and Ministerial oversight.⁷⁴ Crown use is intended to be a rarely used safeguard that is invoked only in order to deal with an urgent or substantial issue that is of concern to the public. The additional certainty and transparency will ensure that Crown use is only invoked in appropriate circumstances, and prevent the provisions from being misused. These benefits offset the additional administrative burden placed on the Crown. Further, the Crown has a duty to ensure that, where it is appropriating an intellectual property right, it acts responsibly and transparently.

Issue 5: Remuneration

Introducing a remuneration standard that is “just and reasonable taking into consideration the circumstances of the case” will improve transparency and introduce a degree of certainty to remuneration negotiations. ACIP believed that these terms encapsulate a balance of both an objective test with the term “reasonable” and a subjective test with the term “just”. It will provide broad guidance for the court in determining the appropriate level of compensation, while retaining the flexibility to deal with a variety of situations.

During consultation on the 2013 Bill, the Queensland Law Society submitted that the proposed amendment to the remuneration provisions did not provide enough guidance. As an alternative, they suggested implementing a formula for calculating remuneration. However, introducing a formula would introduce complexity, and would reduce the flexibility of the provisions to deal with diverse circumstances. Accordingly, IP Australia submits that provisions which provide general guidance on how compensation is to be determined is preferred.

Issue 6: International obligations

Any implementation of Option 2(c) would be done consistently with Australia’s international obligations.

Government use is, by its nature, typically public non-commercial use. While public non-commercial use is not defined, the Australian Government has stated its interpretation that all use by the Crown is public non-commercial use.⁷⁵

⁷¹ *Patents Act 1990* (Cth), s.165(2), *Designs Act 2003* (Cth), s. 98.

⁷² *Patents Act 1990* (Cth), s.165A, *Designs Act 2003* (Cth), s. 102.

⁷³ The Minister would necessarily be empowered to deem what constitutes an emergency in the circumstances. This is subject to the court’s power to declare that Crown use cease where, “in all the circumstances of the case, it is fair and reasonable” to make such a declaration: *Patents Act 1990*, s.165A.

⁷⁴ Advisory Council on Intellectual Property, *Review of Crown Use Provisions for Patents and Designs*, 2005, p.23.

⁷⁵ Australian Government 1997, *Review of Legislation in the Fields of Patents, Layout-Designs (Topographies) of Integrated Circuits, Protection of Undisclosed Information and Control of Anti-competitive Practices in Contractual*

Implementing the Option 2(c) would clarify that governments could authorise the exploitation of patents, by private providers for the benefit of private patients within the ambit of public non-commercial use. As noted above, some stakeholders considered this included services offered on a “for profit” basis.

The LCA expressed the view in 2013 that it would be preferable to incorporate a limitation to restrict Crown use to public non-commercial use directly into the legislation. This would be more restrictive than necessary, as it would exclude the above-mentioned additional categories for unauthorised use. There is also no similar express limitation in US law.⁷⁶

The proposed Crown use provisions provide a discretionary mechanism for unauthorised use of a patent for the services of a relevant government authority. The second reading speech and explanatory memorandum to the 2013 Bill emphasised that Crown use is to be invoked as a rarely used safeguard, to address exceptional circumstances. The 2005 ACIP Review considered that Ministers would benefit from guidelines to follow when considering a request for approval of Crown use. IP Australia proposes a ministerial guidance document – such as a practice note or ministerial guidelines – to support the application of the Crown use provisions in a manner consistent with international obligations.

Summary

In summary, the benefits of the proposed solution are that it:

- addresses the issues with Crown use provisions, including the lack of clarity regarding when Crown use can be invoked, who may invoke it, and the lack of transparency and accountability;
- improves clarity for both the Crown and the IP owner with regards to standards of remuneration, whilst retaining flexibility for the government;
- increases the effectiveness of the Crown use provisions in ensuring the IP system does not impede governments from acting in the public interest; and
- is consistent with Australia’s international obligations.

Questions for consultation

CU1 Which approach to Crown use of patents and designs do you favour and why?

CU2 What pros and cons have we not considered, including unintended or unforeseen consequences?

CU3 What other options are there?

CU4 Do you consider that ministerial approval should be required in all circumstances of Crown use as per options 2(a) and 2(c), or should a waiver be permissible in certain circumstances?

Licences, Response to the Council for Trade-Related Aspects of Intellectual Property Rights, World Trade Organisation, Geneva.

⁷⁶ See 28 United States Code 1498.

Compulsory Licensing

Introduction

This paper discusses proposed amendments to the *Patents Act 1990* (the Patents Act) to

- change the test required to obtain a compulsory licence over a patent;
- change the considerations of the court in determining the terms of a compulsory licence; and
- change the provisions for compulsory licensing in instances of patent dependency.

The purpose of this paper is to encourage discussion and seek views on the proposed amendments.

IP Australia invites interested parties to make written submissions in response to the questions presented in this paper by **Friday, 17 November 2017**.

IP Australia will consider the submissions, and undertake further consultation during the legislation drafting process.

Written submissions should be sent to consultation@ipaaustralia.gov.au.

For accessibility reasons, please submit responses by email in Word, RTF, or PDF format.

The contact officer is Lisa Bailey, who may be contacted on (02) 6222 3695, or via email on Lisa.Bailey@ipaaustralia.gov.au.

This paper is also available at:

www.ipaustralia.gov.au/about-us/public-consultation

Submissions should be received no later than 17 November 2017.

Part 1: Compulsory Licensing of Patents

Background

A compulsory licence is an order for a patentee to grant a licence to another party, allowing that party non-exclusive rights to exploit the patented invention. Compulsory licensing is one of several safeguards in the *Patents Act 1990* (Patents Act) that allow a patented invention to be used without the authorisation of its owner. These safeguards can be invoked in exceptional circumstances where exercising the exclusive rights associated with a patent would not serve the best interests of the community.⁷⁷

Section 133(2)(a) of the Patents Act provides that the court may make an order for the grant of a compulsory licence in favour of an applicant, where:

- (a) The applicant has tried for a reasonable period, without success, to obtain authorisation from the patentee to work the invention on reasonable terms and conditions; and
- (b) The “reasonable requirements of the public” are not being met with respect to a patented invention; and
- (c) The patentee has given no satisfactory reason for failing to exploit the patent.

Section 133(2)(b) provides that the court may make the order if the patentee has contravened or is contravening Part IV of the *Competition and Consumer Act 2010* (Cth) (CCA).

⁷⁷ Productivity Commission, Inquiry Report, *Compulsory Licensing of Patents*, 2013, p.47.

Section 135 sets out the circumstances in which the “reasonable requirements of the public” are taken not to have been satisfied.

A compulsory licence has never been granted in Australia. There have been three cases where an application has been made. There are several possible reasons for the limited number of compulsory licence applications:

- Compulsory licensing is a safeguard that is rarely needed;
- Compulsory licensing provisions may act as a deterrent against refusals to licence on voluntary terms; and/or
- Issues with the compulsory licensing provisions may be limiting their utilisation.

A number of reviews have raised issues with, and recommended amendments to, the compulsory licensing provisions, including:

- Intellectual Property and Competition Review Committee, 2000, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (Ergas Report);
- Australian Law Reform Commission, 2004, *Genes and Ingenuity: Gene Patenting and Human Health*;
- Senate Community Affairs References Committee, 2010, *Inquiry into Gene Patents*; and
- Productivity Commission Inquiry Report, 2013, *Compulsory Licensing of Patents*

In its 2013 review, the Productivity Commission (“PC”) made four recommendations in relation to the compulsory licensing provisions. In general terms, these recommendations would:

- Remove the competition test from the Patents Act and add it to the *Competition and Consumer Act 2010* (Cth) (Recommendation 6.1);
- Replace the reasonable requirements of the public test with a general public interest test (Recommendation 6.2);
- Repeal s.136 of the Patents Act, which prevents the court from making an order for a compulsory licence that is inconsistent with an international treaty (Recommendation 6.3); and
- Provide a plain English guide on compulsory licensing, jointly developed by IP Australia and the Australian Competition and Consumer Commission (Recommendation 10.1).

Problem

The PC identified three issues with the compulsory licensing provisions.

Issue One: Overlap with the Competition and Consumer Act 2010

Section 133(2)(b) of the Patents Act was introduced in 2006 in partial response to a recommendation in the Ergas Report. This provision provides that the court may issue a compulsory licence on the grounds that the patentee has contravened, or is contravening, Part IV of the CCA, which relates to anti-competitive conduct.

The PC argues that there is inconsistency and duplication between the Patents Act and the CCA because the CCA may already allow the court to make an order for a compulsory licence under the existing remedy provisions. For example, under s.80 of the CCA, the court can grant an injunction on the terms it considers appropriate, including “requiring a person to do an act or thing”. Section 87 of the CCA gives the court broad powers to make any order it thinks appropriate if the order would compensate the applicant for the loss or damage suffered, or prevent or reduce the loss or damage.

In *NT Power v Power and Water Authority* (2004) 219 CLR 90 the High Court of Australia indicated that s.46 of the former *Trade Practices Act 1974* may create access regimes if an intellectual property owner refuses to licence intellectual property or only licences it on particular conditions.

Because of this, the PC argues that an applicant can seek a compulsory licence as a result of anti-competitive behaviour via two separate mechanisms: either under the remedy provisions of the CCA, or under s.133 of the Patents Act.

The PC suggests that this arrangement creates duplication and inconsistency, which, in the absence of clear guidance on which legislation prevails when the respective provisions are in conflict, leads to uncertainty. Potential inconsistencies raised by the PC include differences in who can apply for a compulsory licence, the timeframe for bringing an application, and differences in remuneration. Consequently, the PC recommended that the competition test be moved from the Patents Act to the CCA (Recommendation 6.1).

Issue Two: Uncertainty within the reasonable requirements of the public test

Under s.133(2)(a)(ii) of the Patents Act, the court must be satisfied that the reasonable requirements of the public with respect to the patent have not been met, before it can make an order for a compulsory licence. Section 135(1) of the Patents Act outlines the circumstances in which the reasonable requirements of the public are taken not to have been satisfied .

The PC found that this term was not used elsewhere in Australian legislation or case law, in contrast to the more commonly used notion of the public interest. Additionally, there was limited case law to provide guidance on its interpretation. As a result, the PC argued, the language used in the provisions creates significant uncertainty.⁷⁸ This uncertainty may reduce the incentive to apply for a compulsory licence, and may be one of the reasons that the provisions are so rarely used.

Another issue identified by the PC with the reasonable requirements of the public test is that it appears to conflate the interests of the broader public with the interests of individual industries. Section 135(1)(a) of the Patents Act provides that the reasonable requirements of the public are not satisfied if "an existing trade or industry in Australia, or the establishment of a new trade or industry in Australia, is unfairly prejudiced" by the lack of access to a patented invention.

The PC argues that the reasonable requirements of the public test should not protect the interests of a particular trade or industry if this comes at a net cost to the broader community. For example, there may be instances where providing a compulsory licence benefits a particular trade or industry today, but compromises community-wide welfare over time, by reducing the incentive of foreign firms to market their products in Australia. To the extent that protecting the interests of a particular industry is desirable for economic efficiency, the PC considered it more appropriate to consider this as part of a broader public interest test, than to treat the interests of an industry as an end goal.⁷⁹

To address these issues, the PC recommended that the current test be replaced with a new public interest test (Recommendation 6.2). This test would focus on the criteria that Australian demand for a product or service is not being met on reasonable terms, and access to the patented invention is essential for meeting the demand.⁸⁰ The PC also specified certain conditions that should be met. These included that the applicant must have tried for a reasonable period, without success, to obtain access from the patentee on reasonable terms (as required by the current Patents Act), and that there must be a substantial public interest in providing the applicant with access to the patent.

The PC also recommended that the terms of any compulsory licence, including the level of compensation to the patentee, be consistent with the public interest considerations outlined above.

⁷⁸ Productivity Commission Inquiry Report, *Compulsory Licensing of Patents*, 2013, p.148.

⁷⁹ Productivity Commission Inquiry Report, *Compulsory Licensing of Patents*, 2013, p.148.

⁸⁰ Productivity Commission Inquiry Report, *Compulsory Licensing of Patents*, 2013, p.148.

Issue Three: Compulsory licence orders and international obligations

Section 136 of the Patents Act provides that the court must not make an order for a compulsory licence that is “inconsistent with a treaty between the Commonwealth and a foreign country”. Australia’s international obligations allow for compulsory licensing. Three agreements contain specific provisions on compulsory licensing:

- the *Paris Convention for the Protection of Industrial Property*;
- the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS); and
- the *Australia-United States Free Trade Agreement* (AUSFTA).

The PC considered s.136 to be problematic because it required the courts to interpret international agreements into domestic application and created uncertainty which may undermine the operation of the safeguard mechanism. The PC also considered that on a literal reading of the provision, the court would be required to apply international treaty provisions which had not been directly implemented in domestic legislation.⁸¹

The PC recommended that s.136 of the Patents Act be repealed, and that treaty obligations be implemented directly into legislation where necessary (Recommendation 6.3).

Options for reform

Option 1: Public education and awareness

Under this option, IP Australia would undertake public education and awareness activities. For example, publishing an explanatory document that explains the scope of the reasonable requirement of the public test, and raise awareness of this document with relevant stakeholders. Alternatively, IP Australia may, in conjunction with the Australian Competition and Consumer Commission (ACCC), develop a plain English guide to the compulsory licensing provisions and publish it on both agency websites, in accordance with Recommendation 10.1 of the 2013 PC Report.

Public education and awareness activities were undertaken for Crown use provisions in March 2009. This involved the then Minister for Innovation, Industry, Science and Research writing to relevant Commonwealth, State and Territory Ministers to raise awareness of rights and obligations under the provisions, and the development of a factsheet for public consumption. These actions did not appear to alleviate all concerns about those provisions.

Option 1 alone is not preferred, as it provides only a partial response to the issues that have been raised. Although this option would increase awareness of the existing provisions and may provide some clarification of how they are to be applied, it will also leave key issues unaddressed. Stakeholders are likely to continue to raise issues with the provisions. However, development of a plain English guide as set out in Recommendation 10.1 would be useful, were it to be progressed together with legislative solutions outlined below.

Option 2: Implement the Productivity Commission’s recommendations in full

Under this option, the Patents Act will be amended to implement the recommendations of the PC Report. Option 2 is not preferred.

Recommendation 6.1: move competition test into the Competition and Consumer Act 2010

IP Australia does not agree with the PC that the competition test should be moved to the CCA. Currently, s.133(2)(b) of the Patents Act provides a clear and transparent statement that a compulsory licence is available under the Patents Act as a remedy for anti-competitive conduct.

⁸¹ Productivity Commission Inquiry Report, *Compulsory Licensing of Patents*, 2013, p.158.

The relationship between the provisions in the Patents Act and the CCA was recognised at the time s.133(2)(b) was implemented. During introduction of the competition test into section 133, a Parliamentary inquiry into the implementing Bill heard evidence that the CCA (then the *Trade Practices Act 1974*) already contained an alternative mechanism for compulsory licensing of patents. The suggestion was that although use of intellectual property is excluded from the operation of Part IIIA of the CCA's provisions regulating access to services, the courts had "attempted to bridge this gap" through Part IV of the CCA – specifically s.46, which concerns misuse of market power.⁸²

Under the CCA remedy provisions, the court may grant an injunction in such terms as it deems appropriate to remedy a misuse of market power,⁸³ which could conceivably take the form of a compulsory licence. As noted above, the High Court has said that the market power provisions could be used to create access regimes for the supply of intellectual property.⁸⁴ However, the CCA does not include a specific provision under which a person can directly apply to the court for a compulsory licence.

As the Further Explanatory Memorandum to the 2006 Bill made clear, section 133(2)(b) is intended to complement the remedies available under the CCA, and is not intended to limit the court's powers under that Act. It is intended to clarify that a compulsory licence is available under the Patents Act for any breach of Part IV of CCA. This is in addition to any other remedies available under the CCA.

There is insufficient evidence of particular problems that would be specifically resolved by implementing Recommendation 6.1. It may also have the unintended consequence of reducing the court's powers under the CCA. As it stands, the current provision in the Patents Act provides a clear statement that a compulsory licence is available as a remedy for anti-competitive conduct relating to a patent.

Recommendation 6.2: public interest test

IP Australia does not agree with all elements of Recommendation 6.2 – but does agree that the reasonable requirements of the public test should be replaced with a new public interest test. IP Australia also agrees that the references to the protection of trade and industry in s.135 of the Patents Act should be removed. This follows a series of earlier reviews which have recommended that s.135 be replaced or clarified, including:

- ALRC, Report 99, *Genes and Ingenuity*, June 2004, Recommendation 27-1; and
- Senate Standing Committee on Community Affairs, Report, *Inquiry into Gene Patents*, November 2010, Recommendation 12.

Recommendation 6.2 specified that a compulsory licence would be available under the new test if the following legislated conditions were met.⁸⁵

- Australian demand for a product or service is not being met on reasonable terms, and access to the patented invention is essential for meeting this demand.
- The applicant has tried for a reasonable period, but without success, to obtain access from the patentee on reasonable terms and conditions.
- There is a substantial public interest in providing access to the applicant, having regard to
 - benefits to the community from meeting the relevant unmet demand;
 - commercial costs and benefits to the patent holder and licensee from granting access to the patented invention; and

⁸² Professor Stephen Corones, *Submission on Compulsory Licensing of Patents*, Senate Economics Legislation Committee, 28 July 2006, pp 6-8.

⁸³ *Competition and Consumer Act 2010* (Cth), s. 80.

⁸⁴ In non-binding commentary: *NT Power Generation Pty Ltd v Power and Water Authority* (2004) 219 CLR 90 at 122.

⁸⁵ Productivity Commission, *Inquiry Report, Compulsory Licensing of Patents*, 2013, p.24.

- other impacts on community wellbeing, including those resulting from greater competition and from the overall effect on innovation.

The availability of a compulsory licence should focus on whether Australian demand for a product or service is not being met, and whether access to the patent is necessary in order to address this demand. Broader considerations concerning Australian trade or industry could be considered as part of a public interest test.

However, the threshold proposed by the PC – a “substantial” public interest – should not be adopted. This would create a significant barrier for applicants to overcome in applying for a compulsory licence. It would raise the threshold above what is currently required, noting that the proposed test already specifies that access to the patent must be essential to meet demand.

Further, the introduction of the word “substantial” will increase the level of uncertainty. It is unclear what would constitute a “substantial” public interest, and judicial interpretation of the term “substantial” varies widely. In IP Australia’s view, adding the word “substantial” would only increase uncertainty and introduce a further disincentive to apply for a compulsory licence.

IP Australia also agrees that the PC recommendations on the terms of a licence be implemented. Recommendation 6.2 included provisions for the Federal Court to set the terms of the compulsory licence – where the parties cannot reach agreement – “consistent with the public interest”, having regard to the rights of:

- *the patentee* to obtain a return on investment commensurate with the regulatory and commercial risks involved; and
- *the public* to the efficient exploitation of the invention.

In addition, IP Australia would propose retaining the current requirement that the court take into account the economic value of the licence.

The proposed legislative amendment would require the court to explicitly refer to these two factors in determining the appropriate level of remuneration (and other terms) for the compulsory licence, where the parties are unable to agree on negotiated terms. This would not be an exhaustive list and would not prevent the court taking other relevant factors into account. The PC noted that its factors are based on the pricing principles in Part IIIA of the CCA.⁸⁶

Recommendation 6.3: repeal s.136 of the Patents Act

IP Australia does not agree with the PC’s recommendation that s.136 of the Patents Act should be repealed. The provision provides certainty that a court will not issue compulsory licences in circumstances which are inconsistent with Australia’s international obligations.

Section 136 has been included in its current wording since the introduction of the *Patents Act 1990*. Prior variations were also included in the *Patents Act 1952* and the *Patents Act 1903*.⁸⁷ The provision provides certainty that a court cannot make an order that is inconsistent with Australia’s international law obligations.

The PC is correct in saying that it is ordinary practice for Australia’s international obligations to be implemented through specific amendments to domestic legislation. However, it is not unusual for legislation to refer to international agreements in a similar manner to s.136. There are a considerable

⁸⁶ These are the principles to which the ACCC must have regard in making determinations on essential infrastructure access for services: see *Competition and Consumer Act 2010*, s.44ZZCA.

⁸⁷ Section 111 of the *Patents Act 1952* and section 87A of the *Patents Act 1903* introduced by Act No 17 of 1909.

number of other legislative regimes with similar provisions which restrict decision-makers from exercising powers inconsistently with international agreements.⁸⁸

Option 3: Implement a refinement of Recommendation 6.2 only

Under this option Recommendations 6.1 and 6.3 would not be implemented, and the Patents Act would be amended to implement Recommendation 6.2 only, but with a “public interest” test, rather than a “substantial public interest” test. This option is otherwise identical to Recommendation 6.2, both in terms of the application of the test for the issue of a compulsory licence, and the determination of the terms of the licence.

The new test would focus on whether there is unmet demand for a product or service, which would be remedied by access to the patent. It would also require the court to consider whether access to the patent would be in the public interest.

Benefits of Proposed Solution

A combination of Options 1 and 3 is the preferred solution. The proposal will:

- Ensure that s.133 of the Patents Act continues to provide a clear and transparent statement that a compulsory licence is available as a remedy for anti-competitive conduct;
- Increase certainty and clarity in s.133(2) and s.135 of the Patents Act by removing the reasonable requirements of the public test and replacing it with a public interest test;
- Balance the right of the patentee to obtain an appropriate economic return on their investment, and the rights of the public to the invention being exploited efficiently;
- Retain s.136 of the Patents Act, to maintain certainty that the grant of a compulsory licence will not be inconsistent with Australia’s international legal obligations; and
- Communicate the legislative changes to the public, and clarify the intent and purpose of the provisions to patent owners and prospective licensees.

Questions for consultation

CL1.1 Which approach to compulsory licensing of patents do you favour and why?

CL1.2 What pros and cons have we not considered, including unintended or unforeseen consequences?

CL1.3 What other options are there?

CL1.4 Are there any particular aspects of compulsory licensing which should be a focus of public education and awareness efforts?

⁸⁸ For example, the *Civil Aviation Act 1988* (Cth) s.11: “CASA shall perform its functions in a manner consistent with the obligations of Australia under the Chicago Convention and any other agreement between Australia and any other country or countries relating to the safety of air navigation.”

Part 2: Compulsory Licensing for Dependent Patent Owners

Stakeholders have identified an issue in the implementation of additional legislative requirements for applicants seeking a compulsory licence for a patent under the Patents Act in circumstances of patent dependency. These stakeholders have also suggested an amendment to the provision to correct this apparent error.

Background

“Patent dependency” refers to circumstances in which a patented invention (**the dependent patent**) cannot be worked without exploiting an earlier patented invention (**the original patent**). Examples of dependent patents include a patent which protects a novel process for the production of a product which is already protected by an original patent, or a patent granted in respect of a novel application of a product or a process protected by an original patent.

Subsection 133(3B) of the Patents Act provides additional conditions which must be satisfied where an applicant seeks a compulsory licence in order to work a dependent patent invention.

The provision requires that, if the dependent patented invention cannot be worked without infringing another patent (the original patent):

- (a) the court is to make the order only if the court is further satisfied that the [dependent] patented invention involves an important technical advance of considerable economic significance on the [original] invention; and
- (b) the court must further order that the patentee of the [original] invention:
 - (i) must grant a licence to the applicant to work the other invention insofar as is necessary to work the patented invention; and
 - (ii) is to be granted, if he or she so requires, a cross-licence on reasonable terms to work the [original] patented invention.

This cross-licensing requirement in paragraph 133(3B)(b)(ii) is intended to provide appropriate compensation for an original patent owner for the compulsory licence over their invention, in addition to remuneration terms of that licence. It effectively allows the original patent owner to benefit from the follow-on innovation which was facilitated by their original invention.

Subsection 133(3B) was introduced by the *Patents (World Trade Organization Amendments) Act 1994*, which made amendments to the Patents Act to ensure consistency with the TRIPS Agreement.⁸⁹ Article 31(l) of the TRIPS Agreement prescribes additional conditions where member states provide for unauthorised use of a patent in circumstances of patent dependency. Subsection 133(3B) has never been tested in an Australian court, though it could be expected to have some influence on voluntary licensing negotiations between dependent and original patent owners.

Problem

The Institute of Patent and Trade Marks Attorneys (IPTA) and the Law Council of Australia (LCA) contend that subsection 133(3B) of the Patents Act may create unintended and erroneous outcomes. They argue that the purpose of the provision should be to deal only with situations where an application for a

⁸⁹ Hansard, Second Reading Speech, *Patents (World Trade Organization Amendments) Bill 1994*, House of Representatives, 18 October 1994, p. 2185.

compulsory licence is made by the owner of the dependent patent.⁹⁰ On this view, the provision should provide that dependent patent owners may seek compulsory licences over original patents, only where their follow-on innovation involves an important technical advance of considerable economic significance on the original invention.

However, as currently drafted, s.133 of the Patents Act allows an *applicant*, who may be a relevant patent owner or a third party, to apply for a compulsory licence over the original patent in order to work the dependent patent invention. This has the effect that a third party applicant may obtain a compulsory licence in respect of the dependent patent and the original patent in the one application. However, a third party applicant would only need to satisfy the grounds for obtaining the compulsory licence in s.133(2) in relation to the dependent patent – applying a different test for a compulsory licence over the original patent.

Furthermore, paragraph 133(3B)(b)(ii) provides that the owner of the original patent must be granted, if he or she requires, a cross-licence on reasonable terms to work the dependent patent invention. This provision has the effect that the original patent owner may require a cross licence on reasonable terms from the owner of the dependent patent, even where the applicant is a third party. This outcome has been criticised as illogical. It is the third party applicant who has sought access to the dependent patent, and it is the third party who is making use of the original invention, not the owner of the dependent patent. IPTA has argued that it is not equitable to require the owner of the dependent patent to compensate the owner of the original patent for the actions of a third party with the grant of a compulsory cross-licence. Where an applicant requires compulsory licences to more than one patent, these should arguably be treated as separate applications.

Options for reform

Option 1: Amend subsection 133(3B) so that it applies only to dependent patent owners

Option 1 is the preferred option.

This option adopts the suggestion of stakeholders that subsection 133(3B) be amended so that it applies only in circumstances where the owner of a dependent patent is seeking a compulsory licence over the original patent. This would remove the purported illogical outcomes from the legislation.⁹¹

This would have the effect of removing the ability of third parties to seek compulsory licences over both a dependent and original patent at the same time. Instead, third parties would need to seek separate licences over each patent. As a result, this option would clarify that the subsequent cross-licence arrangements only apply between original and dependent patent owners.

Option 2: Repeal subsection 133(3B)

A further option is to repeal s.133(3B). Under this option, all compulsory licence applications would be governed by common requirements of s.133(2), with no special arrangements for circumstances of patent dependency. This option could be taken in response to the comments of the ALRC and the PC that subsection 133(3B) may be unnecessary, as subsection 133(2) may already effectively act to achieve the intended policy outcomes. That is, in applying the reasonable requirements of the public test, or a public interest test, a court would likely consider the importance and economic significance of the technological advance of a dependent patent before granting a compulsory licence over an original patent.

⁹⁰ IPTA submission to the 2016 Productivity Commission Inquiry, *Intellectual Property Arrangements*, p. 33, and LCA letter to IP Australia, 12 June 2013, p. 4.

⁹¹ IPTA, Response to Productivity Commission Inquiry into Australia's Intellectual Property Arrangements Chapter 7, 14 February 2017, at p 34.

This option would have the benefits of simplifying compulsory licensing arrangements under a single set of requirements. It would also remove the illogical outcomes produced by the current provision in relation to third party applicants and cross-licensing.

However, it is not sufficiently certain that a court, in the absence of s.133(3B), would only order a compulsory licence to work a dependent patent which represents an “important technical advance of considerable economic significance” on the original patent. Accordingly, this option is not recommended.

Benefits of proposed solution

Option 1 is the preferred solution. The proposal will increase certainty and clarity of the operation of compulsory licensing provisions as they relate to dependent patents by eliminating illogical outcomes which arise when third party applicants seek a concurrent compulsory licence over dependent and original patents in the one application.

Whilst this option will require third applicants to make multiple applications in respect of the dependent and original patents where required – and to satisfy the requirements of s.133(2) in respect of each application – such applicants will no longer have to satisfy the requirements economic significance test applied to dependent patentee applicants.

Questions for consultation

- CL2.1 Which approach to compulsory licensing in circumstances of patent dependency do you favour and why?
- CL2.2 What pros and cons have we not considered, including unintended or unforeseen consequences?
- CL2.3 What other options are there?

Trade mark divisional applications and the introduction of division of International Registrations

Introduction

This paper discusses proposed amendments to *Trade Marks Act 1995* ('the Trade Marks Act') and the *Trade Marks Regulations 1995* ('the Trade Marks Regulations') to introduce a new process for dividing International Registrations Designating Australia ('IRDAs'), and consequential proposals to amend the existing practice in Australia for dividing domestic trade mark applications.

Dividing a trade application allows goods and/or services that may be acceptable for registration to be separated out from problematic goods and/or services. The purpose of dividing the application is so that the acceptable goods and/or services can proceed to acceptance or registration while the applicant continues to prosecute the remaining problematic goods and/or services.

The discussion paper is in two parts.

- Part 1 discusses proposed amendments to Australia's legislation to allow for the introduction of division of IRDAs. It also outlines how the existing domestic divisional practice will be changed to align where possible with the proposal for division of IRDAs. IP Australia seeks to ensure that the process for requesting a divisional for both domestic applicants and holders of IRDAs is aligned as much as possible, while at the same time minimising the risk of unintended consequences.
- Part 2 of the paper discusses mergers for both IRDAs and domestic trade mark registrations. Mergers, if introduced in Australia, would allow divided IRDAs to be merged back into one IRDA or divided trade mark applications to be merged back into one single application or registration. IP Australia currently has no plans to introduce mergers, but is seeking further information from stakeholders about whether they would use such a facility, should it become available in the future.

The purpose of this paper is to encourage discussion and seek views on the proposed amendments.

IP Australia invites interested parties to make written submissions in response to the questions presented in this paper by **Friday, 17 November 2017**.

IP Australia will consider the submissions, and undertake further consultation during the legislation drafting process.

Written submissions should be sent to consultation@ipaaustralia.gov.au.

For accessibility reasons, please submit responses by email in Word, RTF, or PDF format.

The contact officer is Lisa Bailey, who may be contacted on (02) 6222 3695, or via email on Lisa.Bailey@ipaaustralia.gov.au.

This paper is also available at:

<https://www.ipaustralia.gov.au/about-us/public-consultations>

Submissions should be received no later than 17 November 2017.

Part 1: Introduction of division of International Registrations, and alignment of the process for domestic divisional applications

Madrid Protocol to allow division of International Registrations

Australia is a member of the *Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks* ('Madrid Protocol'). The Madrid Protocol is a treaty providing for the international registration of trade marks. The Madrid Protocol is administered by the World Intellectual Property Organisation ('WIPO'). As a member of the Madrid Protocol, Australia receives International Registrations Designating Australia ('IRDAs'). The examination of IRDAs is governed not only by the relevant Australian Legislation including the Trade Marks Act and the Trade Marks Regulations, but also by the Madrid Protocol and the *Common Regulations under the Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating to that Agreement* ('the Common Regulations').

Currently the Madrid system does not provide for international registrations including IRDAs to be divided. This has been a focus of discussion at a number of meetings of the Working Group on the Legal Development of the Madrid System for the International Registration of Marks ('the Madrid Working Group'). In 2016, the Madrid Working Group recommended changes to allow an international registration to be divided. A new Rule 27bis will be inserted into the Common Regulations, setting out the requirements should a holder choose to request the division of an international registration.

The changes to the Common Regulations were approved in October 2016 by the Madrid Union and will come into force on 1 February 2019.⁹² Because Australia offers divisional applications in our domestic trade mark system we have an obligation under international commitments to offer the division of IRDAs.

Proposed process for requesting division of an IRDA

IP Australia is proposing to implement the division of IRDAs in accordance with Rule 27bis(1), as set out below.

Under Rule 27bis(1), the holder must send the request to divide the international registration in respect of a designated contracting party to the office of that contracting party (in this case, IP Australia). The office of the contracting party is required to check the request meets its national law regarding division, including any applicable fees. For Australia, provisions in the Trade Marks Act and Trade Marks Regulations apply. Once the office of the contracting party is satisfied that the request meets the requirements of its national law regarding division, it will forward on the request to the International Bureau at WIPO.

WIPO's role

The role of the International Bureau is to check that the request meets the formality requirements set out in Rule 27bis(1) and (2). These are that the request sets out:

⁹² Special Union for the International Registration of Marks (Madrid Union), *Report of the Madrid Union on its Fiftieth (29th Extraordinary) Session, Held in Geneva from 3 to 11 October 2016*, WIPO Doc MM/A/50/5, Paragraph 22(iii) (16 December 2016).

- The contracting party of the office presenting the request
- The name of the office presenting the request
- The number of the international registration
- The name of the holder
- The goods and/or services to be set apart (i.e. divided)
- The requisite fee of 177 CHF has been paid
- The request is signed by the office presenting the request

If all of these requirements have been met then division of the international registration ('Madrid divisional') will occur in respect of the designated contracting party.⁹³

The Madrid divisional will have the same international registration number as its parent international registration but will also feature the next available capital letter.⁹⁴ The Madrid divisional will be recorded on the International Register and notified to the designated contracting party.

If the above requirements have not been met, the International Bureau will issue an irregularity letter and any irregularity must be resolved by the holder within three months otherwise the request will be considered abandoned.⁹⁵

Timeframes and Status

It is proposed that the creation of a Madrid divisional would not lead to a new date of effect or a new refusal period before the International Bureau.⁹⁶ The Madrid divisional would have the same date of effect as the parent international registration (i.e. it would have the same registration date as the parent international registration).⁹⁷

It is also proposed that the Madrid divisional would have the same status as the parent international registration. Any provisional refusal recorded against the parent international registration would also be recorded against the Madrid divisional where applicable. The Madrid divisional and its parent international registration would remain provisionally refused until the office of the contracting party sends a statement under Rule 18*bis* or Rule 18*ter* of the Common Regulations.⁹⁸ Depending on the case the office may send a statement under these rules on its own initiative, or the holder may need to communicate directly with the office to resolve any outstanding issues before a statement under these rules can be sent. This process follows the same principles for the creation of a new international registration following a partial change of ownership.⁹⁹ IP Australia's preferred position is to extend protection where there are no grounds for rejection or opposition.

Division of Goods and Services

Under Rule 27*bis*(1) a Madrid divisional can be for 'some only of the goods and services' of the parent international registration. This wording is similar to the wording of subsection 45(1) of the Trade Marks Act. However, unlike the Australia's domestic situation, there is no requirement under Rule 27*bis* that the

⁹³ Working Group on the Legal Development of the Madrid System for the International Registration of Marks, *Proposal for the Introduction of the Recording of Division and Merger Concerning an International Registration, Fourteenth Session, Held in Geneva from 13 to 17 June 2016*, WIPO Doc MM/LD/WG/14/3 Rev., Paragraph 7 (25 April 2016).

⁹⁴ Working Group on the Legal Development of the Madrid System for the International Registration of Marks, *Report of the Working Group on its Fourteenth Session, Held in Geneva from 13 to 17 June 2016*, WIPO Doc MM/LD/WG/14/7, Paragraph 296 (20 February 2017) ('*Report of the Working Group on its Fourteenth Session*')

⁹⁵ *Common Regulations under the Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating to that Agreement*, Rule 27*bis*(3)(b) (Comes into force 1 February 2019).

⁹⁶ *Madrid Divisionals Proposal 2016*, WIPO Doc MM/LD/WG/14/3 Rev., Paragraph 20.

⁹⁷ *Madrid Divisionals Proposal 2016*, WIPO Doc MM/LD/WG/14/3 Rev., Paragraph 20.

⁹⁸ *Ibid.*

⁹⁹ *Ibid.*, Paragraphs 19-20.

parent international registration be amended to exclude the goods and services of the Madrid divisional. This is appropriate, as the division of the international registration is only in relation to the designated contracting party and not the overall international registration.

In order to prevent duplication when dividing IRDAs, IP Australia is considering options for effectively removing goods and services which form part of the Madrid divisional from the parent IRDA. As an example, if the parent IRDA contained *clothing, footwear and headgear* in Class 25 and the holder decided to request a Madrid divisional which contained *jeans* in Class 25 it would meet the 'some only of the goods and services' requirement because *jeans* are a subset of the broad Class 25 item *clothing* included in the parent IRDA. Further, the parent IRDA may be amended to remove or exclude *jeans*.

Australian process for division of domestic applications

Current provisions under the Trade Marks Act allow for domestic trade mark applications to be divided. An application may be divided at any time while the application is pending. As noted in the introduction, dividing an application allows the problematic goods or services to be separated out from those that may be acceptable, allowing one application to proceed to acceptance or registration while prosecution of the other application continues. The divided application retains the filing date of the parent, and is also able to claim the parent's earlier convention priority, if applicable. A divisional application cannot cover all of the original goods and services of the parent, as it must be for some only of the goods and services in respect of which registration is sought under the parent application¹⁰⁰. With some exceptions, the goods and services in the divisional application must simultaneously be excluded from the parent application¹⁰¹.

IP Australia is planning to change the domestic trade mark divisional application system so that it aligns with the proposed changes to introduce the division of international registrations. This is important as it will ensure equal treatment across both systems. It will also assist customers by harmonising the law, practice and administration with that of Australia's major trading partners, ensuring the systems are simple and easy to use, both within Australia and for those who are applying for trade mark protection overseas.

However, the primary reason for the change is to ensure that the domestic system for divisional trade mark applications is used for its intended purpose, which is to enable applicants to achieve early resolution of the parts of their trade mark applications for which there are no grounds for rejection. This removes delays that would otherwise occur where there are grounds for rejection of the trade mark application in relation to some of the goods and services for which the application was made. The trade mark owner is able to achieve early resolution of the trade mark for the goods and services where there are no grounds for rejection identified, and can continue to gather evidence, prepare submissions and prosecute their case in relation to the goods and services where grounds for rejection have been identified.

Proposed changes for the alignment and improvement of domestic divisional applications

Timeframes and multiple generations of divisionals

Currently, the Act provides for a divisional application to be examined in the same manner as the parent, which means that a report is issued allowing the applicant a new period of 15 months to respond to any grounds for rejection. This provision, together with a further provision that a parent application may itself be a divisional application¹⁰², has allowed some applicants to use the divisional facility simply to replicate and perpetuate their trade mark application on the trade mark database, with its early priority date, even though the original parent application may have been subject to major grounds for rejection, or even subject to refusal after opposition. This behaviour is inequitable from the perspective of other traders and

¹⁰⁰ See *Trade Marks Act 1995* (Cth) s.45.

¹⁰¹ See *Trade Marks Act 1995* (Cth) s.46.

¹⁰² See *Trade Marks Act 1995* (Cth) s.45(2).

is not in the public interest. It is not use in the spirit of the purpose of the provision and it contributes to ‘cluttering’ of the trade marks database.

As described above, WIPO’s proposal for Madrid divisionals does not provide for a new refusal period before the International Bureau. The timeframes are able to remain the same because the Madrid divisional will have the same status as the parent, and any provisional refusal recorded against the parent will also be recorded against the Madrid divisional. This process will encourage applicants for Madrid divisionals to move quickly to prosecute and finalise their right, ensuring that the essential purpose of dividing the IRDA is satisfied.

IP Australia therefore proposes to adapt domestic divisional application processes to align with the above. That is, the Act and Regulations will be amended so that there will no longer be a requirement that a new divisional application be separately examined and reported on by the Registrar, and afforded a new 15 month acceptance period. Instead, at filing, key dates for the domestic divisional application will match those of the parent application (i.e. the final date for acceptance of a domestic divisional application will be recorded as being the same as the acceptance date of its parent).

The status of the parent will be automatically carried over to the child and any grounds for rejection and/or opposition raised against the parent will also apply to the child, where appropriate. Depending on the case IP Australia may accept the trade mark on its own initiative, where no grounds for rejection remain following a division, or require the applicant to resolve any outstanding issues. IP Australia’s preferred position is to accept or register a trade mark where there are no grounds for rejection or opposition.

By implementing the above proposal, IP Australia hopes to harmonise domestic and Madrid divisional processes, and at the same time to reduce the problems associated with the use of the current domestic system outlined above. It will also align IP Australia’s practice with the practices of other like-minded trade mark offices.¹⁰³

It will still be possible to file further generations of divisional applications, but prosecution of all divisional ‘offspring’ will be tied to the key dates (e.g. acceptance period) of the parent.

This proposal would still allow the domestic system for divisional trade mark applications to be used for its primary purpose, which is to enable applicants to achieve early resolution of the parts of their trade mark applications for which there are no grounds for rejection. Applicants can continue to gather evidence, prepare submissions and prosecute their case in relation to the goods and services for which grounds for rejection have been identified, for the remainder of the 15 month acceptance period.

Separation of goods and services of ‘parent’ and ‘child’

IP Australia has identified difficulties with the current domestic divisional application process with regard to separating the goods and services of ‘parent’ and ‘child’, to ensure that they do not overlap, as required by the legislation. Broad original statements and ambiguous claims make this task complicated, time-consuming, and potentially inaccurate, which in turn has the potential to invalidate the new application.

The requirements for Madrid divisionals in new Rule 27*bis*(1) outlined earlier in this paper are that the new application nominates the goods and services to be ‘set apart’ from the parent. IP Australia proposes that, for Madrid and domestic divisionals alike, the requirements for the goods and services in the child be that they comprise a subset of those covered by the parent, and that this subset be removed or excluded from the parent. IP Australia is investigating ways to streamline this practice, in order to reduce the difficulties currently experienced by users of the domestic divisional application system in attempting to effectively separate the two sets of goods and services into those of the parent and those of the child.

¹⁰³ In particular the practices of the United Kingdom Intellectual Property Office, the Intellectual Property Office of New Zealand, the Intellectual Property Office of Singapore and the United States Patent and Trade Mark Office.

IP Australia expects that domestic applicants will benefit from a more streamlined practice for differentiation of divisional goods and services, because it will simplify the process and lead to a reduction in numbers of requests not meeting the requirements for a valid divisional application.

Harmonisation of fees

WIPO proposes that there will be a fee of 177 Swiss francs to record a request for the division of an international registration. This fee will be charged by WIPO, so it is proposed the holder will pay this fee directly to WIPO. This amount takes no account of numbers of classes contained in the divided IRDA, or work undertaken by IP Australia. Current fee requirements for domestic divisional applications, however, specify payment per class, in line with general application fees.

IP Australia will consider its fee structure for Madrid divisionals and domestic divisional applications, with the aim of bringing the fees into alignment where possible.

Proposed legislative changes to effect the above proposals

The Trade Marks Act, particularly Part 4, will need to be amended for the above proposals to take effect. Additionally, the Trade Marks Regulations, in particular Part 17A, will also need to be amended. IP Australia expects that there may be various consequential amendments to the legislation flowing from our proposal to cease treating domestic divisional applications as separate applications requiring separate examination, in line with WIPO's proposal for Madrid divisionals.

IP Australia will undertake further consultation in the drafting of the amendments to the legislation.

Questions for Part 1:

- TM1.1 Is there anything in the Part 1 proposal that you believe might be unworkable? If so, please suggest improvements.
- TM1.2 Can you foresee any scenarios that would be problematic under the Part 1 proposal?
- TM1.3 Where do you see benefits and costs for users of the trade mark system as a whole arising in this process?
- TM1.4 Do you have any other general observations to add?

Part 2: Mergers

Background

Currently under Australian Trade Mark Law, Australia does not provide for a divisional trade mark to be merged back with its parent at a later stage should both proceed to acceptance or registration.

However, a request can be made to link applications or registration lodged or registered before 1 January 1996 if certain conditions are met.¹⁰⁴ Prior to 1 January 1996 a trade mark could only be applied for and registered in a single class. From 1 January 1996, multi-class applications were allowed and the linking provisions allow trade marks filed and registered before then to enjoy the same benefits.

A request can also be made to link series trade mark applications and registrations filed or registered before 27 March 2007, if certain conditions are met.¹⁰⁵ Prior to 27 March 2007 series trade marks could

¹⁰⁴ See *Trade Marks Act 1995* (Cth) s.239A and s.243.

¹⁰⁵ See *Trade Marks Act 1995* (Cth) s.51A and s.82A.

only be applied for and registered in a single class. From 27 March 2007, series trade marks could be applied for and registered in multiple classes. The linking provisions for series trade marks allow series trade marks filed before 27 March 2007 to enjoy the same benefits as multiple class series applications.

The changes to the Common Regulations discussed above will also introduce a new Rule 27ter which would allow the holder of a Madrid divisional to request that it be merged back with its parent IRDA. Because Australia does not currently allow for a divisional trade mark to be merged back with its parent in our domestic trade mark system, we would not have an obligation under our international commitments to offer mergers for IRDAs. However, there may be some benefits of introducing mergers for trade mark applications in the future. In particular, merging these applications means the owner only needs to renew one trade mark rather than multiple trade marks, saving time and costs for applicants.

While IP Australia considers there are some benefits such as easier portfolio management for applicants and holders if a divisional could be merged with its parent, it is not clear that such an option would be widely used by our customers. Before considering such an option in further detail, IP Australia would need to consider the costs and benefits to all stakeholders of administering such an option.

Questions for Part 2:

IP Australia is interested in receiving feedback on the option of a divisional trade mark being merged back with its parent, as follows:

TM2.1 If there was an option to merge a divisional application back with its parent would you use it? Why or why not?

TM2.2 Do you have any other general observations to add?

Further Information

For further information on the introduction of division of International Registrations and mergers of a divisional with its parent please see the following documents:

Proposal for the Introduction of the Recording of Division and Merger Concerning an International Registration, WIPO Doc MM/LD/WG/14/3 Rev. (25 April 2016). Available at:

http://www.wipo.int/meetings/en/details.jsp?meeting_id=39943

Report of the Working Group on its Fourteenth Session, WIPO Doc MM/LD/WG/14/7, (20 February 2017). Available at:

http://www.wipo.int/meetings/en/details.jsp?meeting_id=39943

Report of the Madrid Union on its Fiftieth (29th Extraordinary) Session, WIPO Doc MM/A/50/5 (16 December 2016). Available at:

http://www.wipo.int/meetings/en/details.jsp?meeting_id=39948

For further information on the domestic divisional systems in Australia please refer to Part 12 of the *Trade Marks Office Manual of Practice and Procedure* which is available at:

http://manuals.ipaustralia.gov.au/trademarks/trade_marks_examiners_manual.htm

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