

### **Annexure 3: Copies of Previous Submissions of both IPTA and FICPI Australia**



**THE AUSTRALIAN FEDERATION OF INTELLECTUAL PROPERTY ATTORNEYS  
FICPI AUSTRALIA**

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**25 October 2012**

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**Mr Sean Applegate**  
**Assistant Director**  
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**Dear Sean**

**Innovation Patent System Review**

On behalf of FICPI Australia we make the following comments and observations in connection with the consultation paper entitled "Innovation Patents – Raising the Step".

Before commenting more specifically on the proposals set out in the consultation paper, we express our concerns that the proposals are intended to be enacted before the Minister completes his consideration of the ACIP investigation which has now been in train for almost 12 months. To pre-empt the report by introducing a major change to the innovation patent system would effectively nullify the process put in train by the Minister last year.

FICPI Australia considers that the provision of a system to protect lower-level innovation continues to be most important, particularly for Australian small and medium sized enterprises. A shorter term of monopoly right is provided in recognition that a lower threshold is required. In 2005, the IP Australia Review of the Innovation Patent System issues paper posed the following question:

*"How well has the Innovation Patent System achieved the Australian government's objectives to provide a form of protection that is quick, easy to obtain and relatively inexpensive, for low level or incremental inventions that are not sufficiently inventive for standard patent protection?"*

The government position and objective was clear in 2005, and whilst the consultation paper sets out some reasons for a possible shift in the policy position, there is no evidence that the concerns articulated in the consultation paper have actually eventuated.

The proposed reform would result in the level of invention required for an innovation patent to be identical to that for a standard patent. If that were to be the case, it is hard to identify a rationale for an innovation patent at all. One could simply secure a standard patent and maintain it for 8 years if that was the length of protection required. All other relevant patentability tests would be the same. Such protection would come however, with the disadvantages of restrictions relating to subject matter and the number and type of claims that could be the subject of an innovation patent.

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FICPI Australia strongly disagrees with the proposed reform. It would undermine the Innovation Patent System to such an extent that we doubt that it would be used in any meaningful way. It would take from industry the opportunity to protect innovation which does not meet the new higher standards which are to be applied to inventions under the Raising the Bar Amendments.

FICPI Australia agrees that the *Delnorth* decision resulted in an unintended interpretation of the innovative step test. However, that does not mean that the objective of having a lower level test for a patent of shorter duration is inappropriate or flawed in reasoning.

In this respect, we enclose a copy of our submissions of 26 October 2011 provided in response to the ACIP issues paper of August 2011. We reiterate what we said in paragraph 13 of that submission. FICPI Australia considers that section 7(4) would be better amended to clarify that the "substantial contribution test" is to be assessed against relevant prior art, rather than in relation to the working of the invention itself. We submit that this would be consistent with the expanded novelty test from *Griffin v Isaacs* (from which the definition for innovative step was derived) and would address the concerns that are raised in the current consultation paper without abandoning the policy objective of providing for a relatively inexpensive system to protect lower-level or incremental inventions that are not sufficiently inventive to meet the new requirements.

Contrary to the suggestion in the consultation paper, a large number of countries and regions provide second tier patent systems. Those that have a lower tests for inventive step for such second tier protection systems include Argentina, Austria, Brazil, Bulgaria, Chile, Czech Republic, Denmark, Estonia, Finland, Greece, Italy, Ireland, Paraguay, Poland, Portugal, Romania, Russia, Spain, Turkey, the Ukraine, China, Indonesia, Japan, Korea, Malaysia, The Philippines, Thailand and Vietnam.

In the case of Germany, whilst inventive step is required a relative novelty test is applied, as opposed to an absolute novelty test. In Japan, inconsistent with the consultation paper, there is no inventive step requirement.

Regardless of the position in other countries, it is the experience of FICPI Australia members that the Innovation Patent System provides a crucial avenue for protection of developments which cannot be adequately protected under the Designs system and which fail to meet the higher standards which will now be required for a standard patent under the *Patents Act, 1990*.

We recommend that IP Australia and the Minister reconsider this proposal.

We do not proffer any comment with respect to the drafting instructions incorporated with the consultation paper. The preparation of the drafting instructions prior to any consultation on the merits of the proposal is concerning and a process that we suggest should not be followed in the future, for fear that it might be construed that a decision had been made prior to the outcome of the consultation.

We welcome an opportunity to discuss these proposals and our comments at any convenient time.

Yours sincerely



Greg Chambers  
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25 October 2012

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Dear Sirs

**Innovation Patents – Raising the Step Consultation Paper**

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) wishes to make the following submissions in response to IP Australia's Consultation Paper entitled "Innovation Patents – Raising the Step" issued on 24 September 2012 ("IPA Consultation Paper").

**Executive Summary**

IPTA strongly opposes implementation of the premature proposal set out in the Consultation Paper.

The proposal itself is fundamentally flawed:

- The proposal is premature in view of the pending ACIP Review;

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- The proposal would result in all patentability requirements for an innovation patent being the same as that for a standard patent, rendering the innovation patent system substantially obsolete;
- The innovation patent system would no longer be able to satisfy its primary objective of stimulating innovation in Australian SMEs by enabling them to obtain intellectual property rights for their lower level inventions;
- The innovation patent system does not provide low cost protection, (as suggested in the IPA Consultation Paper to be the remaining benefit of the system). The significant cost of preparation of a patent specification (which is the same for innovation and standard patent specifications) will increase due to the enhanced disclosure and support requirements introduced by the *Raising the Bar Act*.
- Australian industry is suffering in difficult economic times and has fallen behind the rest of the world in innovation, so still needs the support of the innovation patent system.

The justifications provided to support the proposal are based on various errors of fact and misconceptions:

- At the time innovation patents were introduced the Government intended that they provide protection for obvious, but still innovative, inventions as recommended by the Advisory Council on Intellectual Property ("ACIP");
- There is no difficulty or harm in tailoring innovation patents (or standard patents) to target potential infringers, and the proposal will not affect the ability to do so;
- The innovation patent system is still overwhelmingly used by Australian SMEs, contrary to the assertions in the IPA Consultation Paper;
- The number of applications filed in so-called "high-tech" technologies is still very small. The apparently high percentage increase in specific technologies identified in the IPA Consultation Paper relates to insignificant filing numbers in those technologies;
- The IPA Consultation Paper provides no evidence of inappropriate use of the innovation patent system;
- The innovative step test clarified in the *Delnorth Case* is generally consistent with the original Government intention;

- Extending patent life by “evergreening” is not possible. There is no evidence that it has ever been achieved (or is possible) using the innovation patent system;
- Over 75 countries have second-tier patent systems, as opposed to a “modest but significant” number of countries as stated in the IPA Consultation Paper;
- Most of Australia’s top trading partners have second-tier patent systems, including three of Australia’s four largest trading partners;
- Contrary to what is stated in the IPA Consultation Paper, Japan and Germany do not apply an inventive step to their utility model patents, the same as applies to their standard patents.

In the event that the Government insists in raising the inventive threshold for innovation patents, IPTA suggests two possible alternatives to the Government’s current proposal:

- Modify the current test to “require substantial contribution to the working of the invention” to be assessed against working of the prior art;
- Replace the innovative step test with the inventive step test under the *Patents Act 1952*, considering inventive step in light of the common general knowledge only.

### **Overview**

The proposal set out in the Consultation Paper is particularly premature in view of the fact that the Government is still awaiting finalization of a report from ACIP, commissioned by the Government in February 2011, to investigate the effectiveness of the innovation patent system with a view to suggesting reforms which may improve its operation. It is clearly premature for IP Australia to propose a significant overhaul of the innovation patent system whilst this important review is still being undertaken.

The proposal will effectively render the entire innovation patent system obsolete, making all patentability requirements for the innovation patent identical to that of the standard patent. With innovation patents being limited to an eight year term rather than the 20 year term of the standard patent, and being limited in terms of the number of claims and available subject matter as compared to that available for the standard patent, the attractiveness of the innovation patent system that balance these restrictions would be removed. The innovation patent would then not achieve its intended purpose. The potential for providing relatively inexpensive protection by way of the innovation patent system has already been adversely impacted by way of the *Raising the Bar Act*, which is increasing the disclosure and support

requirements for innovation patents and thus the cost of preparing innovation patent specifications.

By increasing the inventive threshold to that which is to apply to standard patents, the key objective of the innovation patent system, being to stimulate innovation in Australian small to medium enterprises (SMEs) by enabling them to obtain intellectual property rights for their lower level inventions, would no longer be achievable. Australian industry is already suffering in the current economic climate, and has been falling behind the rest of the world with its level of innovation. Rendering the innovation patent system obsolete will serve to further damage Australian industry.

IPTA is also particularly concerned that the justifications provided to support the proposal are based on various errors of fact and misconceptions, which we address in detail below. As set out in our detailed submissions below, IPTA has proposed alternative amendments to the present test for innovative step if the Government is insistent on raising the inventive threshold for innovation patents.

Our submissions are set out below in further detail.

### **About IPTA**

IPTA is a voluntary organisation representing registered patent attorneys, registered trade marks attorneys and student members in the process of qualifying for registration in Australia. Whilst a voluntary organisation, the membership of IPTA includes more than 90% of patent attorneys in active practice in Australia. The membership of IPTA includes registered patent attorneys in private practice along with patent attorneys working in industry and others who practise as barristers. IPTA members represent the vast majority of users of the Australian IP system, including SMEs, individual inventors, large corporations, universities and research institutes, both local and foreign.

### **History and Objectives of the Innovation Patent System**

As set out in the IPA Consultation Paper, the innovation patent system was introduced in 2001 to replace the prior petty patent system, in response to ACIP's earlier report entitled "*Review of the Petty Patent System*", issued in 1995 ("ACIP Petty Patent Report"). The ACIP Petty Patent Report recommended replacement of the petty patent system with a new "second-tier" patent, to be called the innovation patent. Key objectives were to provide protection for "minor or incremental innovations" "which fills the gap between designs and standard patents" so as to help SMEs<sup>1</sup>. The

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<sup>1</sup> ACIP Petty Patent Report, page 27

ACIP Petty Patent Report recommended<sup>2</sup> that the inventive level required for innovation patents should be lower than that for standard patents. It was recommended that the test for inventive level should be a modified form of the expanded novelty tests set out in *Griffin v Isaacs*<sup>3</sup>, worded something along the lines of

*"If an innovation varies from a previously publicly available article, product or process only in ways which make no substantial contribution to the effect of the product or working of the article or process, then it cannot be considered to be novel".*

In the Government's response to the recommendations of the ACIP Petty Patent Report, issued on 6 March 1997 ("Government Response")<sup>4</sup>, the Government accepted the vast majority of ACIP's recommendations and particularly stated<sup>5</sup>:

*"the Government agrees with ACIP that a patent system for low level inventions is in Australia's national interest. Overseas experience suggests that, in contrast to the predominantly foreign use of standard patent systems, locally owned SMEs are the major users of lower level patent systems. While providing an exclusive right for lower level inventions, the innovation patent should encourage Australian businesses, particularly SMEs, to develop their incremental inventions and market them in Australia."*

The Government also accepted ACIP's recommendation that the inventive level for innovation patents should be lower than for standard patents, and agreed that the test for this lower inventive level should, in principle, be a modified form of the novelty set out in *Griffin v Isaacs*<sup>6</sup>.

The innovation patent system was thus introduced into Australian law in 2001 by way of the *Patents Amendment (Innovation Patents) Act 2000*. The *Revised Explanatory Memorandum* that accompanied introduction of the Bill into the Senate clearly set out the objectives of the innovation patent system as follows<sup>7</sup>:

*The purpose of the proposed innovation patent system is to stimulate innovation in Australian SMEs. It would do this by providing Australian businesses with industrial*

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<sup>2</sup> ACIP Petty Patent Report, page 32, Recommendation 2

<sup>3</sup> *Griffin v Isaacs* (1938) 12 ALJ 169

<sup>4</sup> Introduction of the Innovation Patent: the Government Response to the Recommendations of the ACIP Report & Review of the Petty Patent System, AOJP 6 March 1997

<sup>5</sup> Government Response, page 1

<sup>6</sup> Government Response, page 2

<sup>7</sup> *Revised Explanatory Memorandum*, page 2



*property rights for their lower level inventions. Industrial property rights are not available for these inventions at present, which means competitors may be able to copy them. For this reason, a firm making lower level inventions cannot be certain of capturing the benefits that come from their commercial exploitation. This lowers the incentive to innovate.*

*The existing petty patent system, administered by IP Australia, has an inventive threshold the same as that for standard patents. This means that it does not meet the need Australian businesses have identified for lower level protection and which most overseas governments are already providing for their SMEs.*

Importantly, this is a clear acknowledgement by the Government that an inventive threshold the same as for standard patents (as is now being proposed – effectively taking us back to the failed petty patent system) does not meet the needs of Australian business.

The *Revised Explanatory Memorandum* also clearly set out the intended operation of the new innovative step test, making it clear that the inventive level was intended to be lower than the inventive step test for standard patents and that there was to be no requirement for the invention of any innovation patent to be non-obvious. That is, it was intended that the innovation patent system provide protection for inventions that are “obvious”, although there is of course no universally accepted definition of the term “obvious”. Specifically, the *Revised Explanatory Memorandum*, in explaining the innovative step test, states<sup>8</sup>:

*This item adds new provisions which set out the test for **innovative step**. This is not a mere novelty test. It requires a level of inventiveness that is greater than the invention simply being “new”. The test requires that the invention is not only new but that it also differs from what was already known in a way that is not merely superficial or peripheral to the invention. The variation must be of practical significance to the way the invention works. However, in contrast to a standard patent there is no requirement that an invention claimed in an innovation patent must be **non-obvious**. Therefore the test for **innovative step** will require an inventive contribution lower than that required to meet the **inventive step** threshold set for standard patents.*

***Innovative step** is determined taking into account the prior art base. The prior art base is the same as that used to determine **inventive step** in relation to standard patents. The person assessing the **innovative step** is a person skilled in the art who assesses the invention in the light of common general knowledge in the field of the invention as it existed before the priority date.*

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<sup>8</sup> *Revised Explanatory Memorandum*, page 10

Whilst the statement that the prior art base for innovative step is the same as that for inventive step is incorrect, with the prior art base being broader for innovative step than for inventive step, the prior art bases will in fact be the same following broadening of the inventive step prior art base on implementation of the *Raising the Bar Act*<sup>9</sup>.

The objectives of the innovation patent system are at least as applicable today as they were in 2001. Meeting these objectives is arguably of greater importance today given the difficult economic conditions being faced by Australian industry, the increased competition from imports and the poor performance of Australian industry in innovation over recent years. The poor performance of Australian industry is evidenced at least by the 15% reduction in the number of PCT patent applications filed by Australians over the period 2007 to 2011, whilst the global number of PCT applications grew by 14%, resulting in Australia's relative share of all PCT application filings reducing by 25% over this period<sup>10</sup>. The difficulties being encountered by industry were also highlighted in a recent article from the Faculty of Engineering at one of Australia's most innovative institutions, the University of New South Wales<sup>11</sup>. It is thus appropriate that the level of inventiveness required for an innovation patent be retained at a lower threshold that enables it to support Australian SMEs, as the current innovation patent system was designed to do.

### **ACIP Review**

As noted above, the Government commissioned ACIP in February 2011 to investigate the effectiveness of the innovation patent system and to suggest any reforms to improve the system.

This process resulted in the publication of an Issues Paper in August 2011, entitled "*Review of the Innovation Patent System – Issues Paper*" ("ACIP Innovation Patent Issues Paper"). ACIP has engaged in extensive consultation with various relevant parties, including several well attended round table discussions. IPTA also provided a detailed response to the ACIP Innovation Patent Issues Paper on 21 October 2011 ("IPTA Innovation Patent Issues Paper Response"), a copy of which is attached. IPTA understands that ACIP's final report following its review is due to be published in early to mid 2013.

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<sup>9</sup> *Intellectual Property Laws Amendment (Raising the Bar) Act 2012*

<sup>10</sup> WIPO Economics and Statistics Series 2012 PCT Yearly Review, Page 27

<sup>11</sup> "Manufacturing in Crisis" UNSW Engineers, Issue 25, May 2012

It is clearly inappropriate for IP Australia to prematurely seek a major overhaul of the innovation patent system, which would effectively render it obsolete, whilst the extensive ACIP review is still being conducted and is relatively close to completion.

Whilst the IPA Consultation Paper acknowledges that the present ACIP Review will provide “valuable insights and recommendations for improvements”, it seeks to justify proceeding with the proposal whilst the ACIP Review is still being undertaken by “a pressing need to address emerging risks of the innovation patent system being used in ways that would lead to undue cost to consumers and to businesses that compete with owners of innovation patents”. As outlined in further detail below, however, the alleged emerging risks are not real risks and no evidence has been provided that the innovation patent system is leading (or may lead) to any increase in costs to consumers and competing businesses.

### **Proposed Reform and Effect thereof**

The proposal set out in the IPA Consultation Paper, to replace the current innovative step test with the same inventive step test that will apply to standard patents after implementation of the *Raising the Bar Act*, will render the innovation patent system obsolete. Excluding from innovation patent protection all inventions that do not meet the patentability requirements for a standard patent will result in the innovation patent system being unable to meet its objective of encouraging innovation in Australian SMEs by providing protection for their lower level inventions.

Whilst the innovation patent system was also intended to provide low-cost protection to SMEs, the preparation of a patent specification for an innovation patent requires the same amount of work and skill as a patent specification for a standard patent. This is typically the most significant cost in obtaining protection, either by way of an innovation patent or a standard patent. This cost is also likely to increase as a result of the enhanced disclosure and support requirements for innovation and standard patents introduced by the *Raising the Bar Act*.

If the proposal is adopted, the innovation patent system will not be used by SMEs to protect their innovations, apart perhaps from self-filers who are not aware of the fact that any invention that will be able to obtain eight year innovation patent protection will also be entitled to full 20 year protection by way of a standard patent. Innovation patents that are self-prepared and self-filed will, in any event, be generally likely to be invalid, particularly in view of the new disclosure and support requirements of the *Raising the Bar Act*.

Replacing the innovative step test with an inventive step test will not, however, prevent the tactical use of innovation patents to tailor patents to target potential infringers, as asserted in the IPA Consultation Paper. It will still be possible for patent applicants to file divisional

innovation patent applications with claims tailored to target infringers or potential infringers, and obtain rapid enforceable patent protection. This practice has been necessitated by the inordinate delays in conducting patent oppositions before the Australian Patent Office, which will hopefully be addressed, at least to some extent, by the provisions of the *Raising the Bar Act*. The provisions of the *Raising the Bar Act* restricting the deadline for filing divisional innovation patents will effectively remove the ability to file divisional innovation patent applications to target infringers or potential infringers during opposition proceedings, but the proposed reforms set out in the IPA Consultation Paper will have no effect in this regard.

In any event, IPTA does not see any problem with patent applicants tailoring their patents to target potential infringers. This is the basis on which all patent specifications (for standard or innovation patents) are drafted and is in keeping with the rights granted to a patentee, being to exclude others from exploiting their invention. It is in fact in the public's interest that claims of any patent are clearly directed to potentially infringing products so that the patentee and any potential infringer are able to clearly assess their position with some certainty and potentially avoid the costs of any unnecessary litigation. The patentee is still only entitled to patent protection for what he or she has invented and the claims of any patent (whether it be a standard patent or innovation patent) must closely align with what is described so as to satisfy the requirement for the claims to be fairly based on (or supported by, under the *Raising the Bar Act*) what is described.

At a time when Australian manufacturing is suffering so greatly, and innovation in Australia is falling so far behind the rest of the world as discussed above, the last thing that the Australian industry needs is removal of the very system that was introduced to stimulate innovation within Australian SMEs.

### **Drafting instructions**

IPTA is quite concerned that the IPA Consultation Paper is accompanied by drafting instructions, which would seem to suggest that the proposal is a *fait accompli* and that the consultation process is not in fact bone fide.

Given the inappropriateness of the proposal in general, IPTA does not propose to provide any specific comment on the drafting instructions.

### **Use of the Innovation Patent System**

As is made clear from the ACIP Innovation Patent Issues Paper<sup>12</sup> and the IPA Consultation Paper itself<sup>13</sup>, the innovation patent system has predominantly been used by local Australian

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<sup>12</sup> ACIP Innovation Patent Issues Paper, page 8, Table 1

applicants, as was always intended. According to the statistics set out in the ACIP Innovation Patent Issues Paper, from the commencement of the innovation patent system through to 2010, 84% of all innovation patents were granted to Australian applicants, with over half of the total number of innovation patents being granted to individual Australian applicants. Whilst the IPA Consultation Paper reports that the proportion of innovation patents granted to Australian individuals and companies fell to about 65% in 2011 (although Figure 1 of the IPA Consultation Paper showing the split between Australian and overseas residents would not seem to support this value, suggesting a greater percentage for Australian residents), the innovation patent system is still overwhelmingly used by local SMEs as opposed to foreign applicants. The increased percentage of foreign applicants in the last two years is consistent with the reduced patenting activity of Australian enterprises compared to the rest of the world, as discussed above.

The fact that the innovation patent system is still predominantly utilized by Australian applicants, and the experiences of IPTA members gained through dealing with Australian SMEs (as is reflected in the IPTA Innovation Patent Issues Paper Response<sup>14</sup>) suggest that the innovation patent system is currently meeting its objective and is playing an important part in stimulating innovation in Australian SMEs.

In the IPA Consultation Paper, IP Australia asserts that there has been a significant rise in innovation patents within "certain high-tech technologies", perhaps suggesting that these inventions are of a higher inventive level than is appropriate for use of the innovation patent system. Lower level inventions may, of course, be developed in any technology, not only in supposed "low-tech" technologies. The IPA Consultation Paper does not present evidence that any of the innovation patents for these technologies have been filed as a misuse of the innovation patent system.

The number of applications filed in the supposed "high-tech" technologies is clearly still very small, with the IPA Consultation Paper indicating only 401 applications in total having been filed in 2011. The fact that only very small numbers of applications in specific supposed "high-tech" technologies were filed when the innovation patent was introduced in 2001 allows one to sensationalize percentage increases (such as the 560% rise stated for pharmaceuticals) even when the raw numbers filed are still insignificant. It is in fact no surprise that the numbers of innovation patent applications filed in the pharmaceutical industry are very small, as the eight year maximum term of an innovation patent is wholly inadequate to properly protect

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<sup>13</sup> IPA Consultation Paper, pages 2 and 3

<sup>14</sup> IPTA Innovation Patent Issues Paper Response, pages 1 and 2

pharmaceutical inventions where it typically takes well over eight years to gain regulatory approval to commercialise new pharmaceuticals. In any event, the IPA Consultation Paper admits that over 75% of innovation patent applications in 2011 were still filed in technologies other than those filed in supposedly "high-tech" technologies.

The statistics presented in the IPA Consultation Paper thus simply do not support a conclusion that the innovation patent system is being misused.

Seeking patent protection for an invention via an innovation patent cannot be considered a misuse of the patent system. The innovation patent system was specifically introduced into Australian law in 2001 to allow for patent protection of inventions that did not involve an inventive step.

### **The Delnorth Case**

The IPA Consultation Paper makes reference to the decision of the Federal Court in the *Delnorth Case*<sup>15</sup>, suggesting that the decision of the Federal Court (in the first instance decision and on appeal),<sup>16</sup> in considering the test for innovative step, was inconsistent with the intention of the Government. This is stated to be "uncompetitive and unacceptable" and to leave the system "open to inappropriate use". The IPA Consultation Paper asserts that the innovative step threshold established in the *Delnorth Case* "is much lower than was anticipated by the designers of the system" and "allows even clearly obvious enhancements to be patented". The decision of the Federal Court in the *Delnorth Case* was, however, at least generally consistent with the innovative step threshold anticipated by the Government, as was set out in the *Revised Explanatory Memorandum* and the Government Response. As noted above, the *Revised Explanatory Memorandum* made it clear that the inventive threshold for an innovation patent was intended to be lower than that for the inventive step test applicable to a standard patent (which requires the invention to be non-obvious and requires only a "scintilla" of invention). The *Revised Explanatory Memorandum* also explicitly set out that there is no requirement for an invention claimed in an innovation patent to be non-obvious.

IPTA believes the innovative step test set out by Gyles J in the *Delnorth Case* was the only reasonable interpretation that could have been given to the test as set out in the *Patents Act 1990* and was arrived at following consideration of extensive materials such as the *Revised Explanatory Memorandum*. Gyles J interpretation of the innovative step test was accepted by the Full Federal Court on appeal. The High Court also dismissed a special leave application

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<sup>15</sup> *Delnorth Pty Ltd v Dura-Post (Aust.) Pty Ltd* [2008] FCA 1225

<sup>16</sup> *Dura-Post (Aust.) Pty Ltd v Delnorth Pty Ltd* (2009) 81 IPR 480

which was based on the interpretation of the innovative step tests, providing a clear indication that the High Court believed there was little prospect for success in overturning the Full Federal Court's decision based on an alternate interpretation of the innovative step test.

Whilst IPTA believes that the inventive step test established by the Federal Court is the only reasonable interpretation that could have been given to the relevant provisions of the *Patents Act 1990*, and is generally consistent with the intentions set out by the Government in the *Revised Explanatory Memorandum* and the Government Response, there is a popular opinion that the test established is inconsistent with the expanded novelty test set out in *Griffin v Isaacs* by Dixon J, by assessing any contribution to the working of the invention by variations from the prior art in isolation of the working of the prior art. In *Griffin v Isaacs*, Dixon J established this test in the following terms:

*"where variations from a device previously published consist in matters which make no substantial contribution to the working of the thing or involve no ingenuity or inventive step and the merit if any of the two things, considered as inventions, is the same, it is, I think, impossible to treat the differences as giving novelty":*

Whilst it is clear from the recommendations set out in the ACIP Petty Patent Report as discussed above, and the ensuing Government response and *Revised Explanatory Memorandum*, that the "involved no ingenuity or inventive step" aspect of the expanded novelty test was to be omitted from the innovative step test, the current wording of the innovative step test, as clarified in the *Delnorth Case*, arguably does not address Dixon J's statement regarding the "the merit if any of the two things". Rectification of this possible deficiency in the innovative step test (as is set out discussed further below) may raise the inventive level required for an innovation patent to an arguably more appropriate level.

The *Delnorth Case* was a classic example of the innovation patent system working and achieving its objective of supporting Australian SMEs in protecting their lower level innovations. Delnorth Pty Ltd is an example of a regional Australian SME that successfully protected its innovation. The Australian Patent Office had regarded Delnorth's innovation as not being of a sufficiently high inventive level to be worthy of standard patent protection, having allowed an opposition to the grant of a standard patent corresponding to the innovation patents that were the subject of the Delnorth Case and, following a successful Federal Court appeal to the opposition, deciding to revoke the standard patent following re-examination. A decision from the Federal Court of Australia regarding an appeal from the Australian Patent Office's re-examination decision is still pending.

The *Delnorth Case* thus did nothing more than reflect the general intention of the Government when the innovation patent system was introduced and helped achieve the Government's objective by protecting the innovation of an Australian SME from copying.

### **Evergreening**

The IPA Consultation Paper cites the first reason for the proposed policy change is the potential for evergreening which is stated to be "of particular concern". It is important initially to note that the IPA Consultation Paper merely refers to the *potential* for evergreening, with there being no evidence that innovation patents have in fact been used for evergreening purposes. This is of course not surprising given that evergreening is more a myth than reality.

The IPA Consultation Paper incorrectly states that "evergreening is a strategy in which companies could use Innovation Patents to effectively extend the life of their patents". Innovation patents cannot be used to extend the life of patents. Any innovation patent filed after an earlier patent cannot provide protection for subject matter described in the earlier patent, as the claims of the later filed innovation patent would be invalid as lacking novelty. Further, any innovation patent filed as a divisional of an earlier patent has its eight year maximum term calculated from the filing date of the earliest filed parent patent. Given that a standard patent has a maximum term of twenty years, the innovation patent would expire well before the standard patent.

The mythical concept of evergreening does not support the proposed policy change.

A key Government objective for the innovation patent system was to provide protection for minor or incremental innovations to fill the gap between designs and standard patents so as to help SMEs. The Government specifically encouraged SMEs to seek innovation patent protection for inventions that did not meet the patentability threshold for standard patents. To now label such patent protection as evergreening seems incongruous.

### **Other countries use of utility models**

As acknowledged in the IPA Consultation Paper, second-tier patent systems like the innovation patent are provided for in other countries. The statement set out in the IPA Consultation Paper that there is only a "modest but significant" number of countries with such utility models is perhaps misleading. The ACIP Petty Patent Report sets out that, as of 1995, at least 48 countries had a second-tier patent system. In the *Revised Explanatory Memorandum* the Government also acknowledged that "most overseas governments" provide for "lower level protection".<sup>17</sup> This is understood to have since grown to 75 countries<sup>18</sup> as of November 2011.

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<sup>17</sup> *Revised Explanatory Memorandum*, page 2



The ACIP Innovation Patent Issues Paper also sets out that three of Australia's four largest trading partners (China, Japan and the Republic of Korea) have second-tier patent systems, and that 12 of Australia's top 17 trading partners have such second-tier patent systems. This is conveniently overlooked in the IPA Consultation Paper, instead listing only the five countries in Australia's top 17 trading partners that do not currently have second-tier patent systems. The IPA Consultation Paper also omits to note that India is considering, and seeming likely to move towards, introduction of a utility model system following release in May 2011 of a discussion paper on the introduction of a utility model system by the Indian Department of Industrial Policy & Promotion.

The statements set out in the IPA Consultation Paper on the utility model systems in Germany and Japan are also incorrect and misleading.

Contrary to the assertions set out in the IPA Consultation Paper, the inventive threshold required for utility models in Japan is lower than that required for patents.

In Japan, a utility model is available for a device that is "the creation of technical ideas utilizing the laws of nature"<sup>19</sup> The test for inventive threshold for a utility model is satisfied unless "a person ordinarily skilled in the art of the device would have been *exceedingly easy* to create the device based on a device described in the prior art"<sup>20</sup>. In contrast, the *Japanese Patents Act* provides that a patent is available for an invention that is "the *highly advanced* creation of technical ideas utilizing the laws of nature"<sup>21</sup>. The test for patentability is satisfied unless "a person ordinarily skilled in the art of the invention would have been able to *easily* make the invention"<sup>22</sup>. There is thus a clear distinction between the requirements for a utility model which requires only a "creation of technical ideas" so long as it would not have been "exceedingly easy to create" as opposed to the requirement for a patent which must be a "highly advanced creation" and not "easily" made.

Also, contrary to the assertions set out in the IPA Consultation Paper, the inventive standards for utility models in Germany are not the same as for standard patents. Utility model protection is afforded to inventions that "involve an inventive step (*erfinderischer*

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<sup>18</sup> According to Intellectual Asset Magazine (see <http://www.iam-magazine.com/blog/Detail.aspx?=-9df68046-4324-465b-996a-5fbc85dabebd>.retrieved 17/10/120

<sup>19</sup> *Japanese Utility Model Act*, Article 2

<sup>20</sup> *Japanese Utility Model Act*, Article 3

<sup>21</sup> *Japanese Patents Act*, Article 2

<sup>22</sup> *Japanese Patents Act*, Article 29

schritt)<sup>23</sup> whilst patent protection is afforded to inventions that involve "inventive activity" (erfinderischer taetigkeit)<sup>24</sup> (although the differing German language terms setting out the inventive requirements for patents and utility models are often misleadingly both translated into "inventive step"). Until a decision of the German Supreme Court in 2006, it was always understood that the inventive standard required under utility model law was lower than the inventive standard for inventive activity under patent law, although the 2006 Supreme Court decision suggested that the inventive thresholds *per se* were the same. The 2006 Supreme Court decision is still debated and criticized in Germany. Importantly, however, the prior art base against which inventive step may be assessed for utility models is greatly restricted as compared to that available for assessing inventive activity for patents. For utility models, the prior art is limited to "knowledge made available by means of a public written description or use within the territory"<sup>25</sup> (that is, within Germany only). For patents, the prior art base is "knowledge made available to the public by means of a written *or oral* description, by use *or in any other way*"<sup>26</sup> (whether in Germany or elsewhere).

The majority of second-tier patents of Australia's 20 leading trading partners have a lower patentability threshold, including China, Japan and the Republic of Korea, being three of Australia's top four trading partners<sup>27</sup>.

Replacing the innovative step test with an identical inventive step test to that which is to be applied to standard patents following implementation of the *Raising the Bar Act*, effectively rendering the innovation patent obsolete, would thus be entirely inconsistent with Australia's main trading partners.

### **Alternative Proposals**

Whilst IPTA recognizes that the bar is perhaps set a little too low with the present innovative step test, a clear distinction between the inventive threshold required for standard patents and innovation patents should be maintained so as to allow the innovative patent system to meet its key objectives.

Whilst various modifications to the innovative step test have previously been proposed by various parties during the current ACIP review process, tests that have been proposed

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<sup>23</sup> German Utility Model Law, Article 1 (1)

<sup>24</sup> German Patent Law, Article 1 (1)

<sup>25</sup> German Utility Model Law, Article 3 (1)

<sup>26</sup> German Patent Law, Article 3 (1)

<sup>27</sup> ACIP Innovation Patent Issues Paper, page 13

suffer other deficiencies, as set out in the IPTA Innovation Patents Issues Paper Response<sup>28</sup>. If the Government is insistent on raising the inventive threshold for innovation patents, IPTA suggests two possible alternatives for consideration as follows:

- a) Minor modification of the current innovative step test to require that the "substantial contribution to the working of the invention" is to be assessed against the working of the relevant prior art disclosure from which the invention varies; or
- b) Replace the current innovative step test with a test equivalent to the inventive step test under the *Patents Act 1952*, in which inventive step may only be considered in light of the common general knowledge, as set out by the High Court in the *3M Case*<sup>29</sup>

The first alternative may result in the test being more closely aligned with the modified novelty test established by Dixon J in *Griffin v Isaacs*, which considered "the merit, if any of the two things" as discussed above.

The second alternative may raise the inventive level too far to meet fully the objective of the innovation patent system. It will, however, still provide a clear distinction between the inventive level required for an inventive step for a standard patent following implementation of the *Raising the Bar Act*, given that any prior art disclosure, no matter how obscure, and (without the benefit of hindsight) irrelevant, will be able to be combined with the common general knowledge when applying that test. This alternative may thus provide a workable compromise and still at least partly fill the gap in protection that exists between designs and standard patent protection.

We trust that these submissions will be given due consideration and will be of assistance in the Government's further consideration of possible modifications to the innovation patent system, but again urge Government not to act prematurely, but to wait until the ACIP Review is completed before properly considering any amendments to the innovation patent system.

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<sup>28</sup> IPTA Innovation Patent Issues Paper Response pp 9-10

<sup>29</sup> *Minnesota Mining Co. v Beiersdorf (Australia) Ltd* (1980 1A IPR 231)

We would welcome the opportunity to meet to discuss any aspect of our submission above and thank you for according with the opportunity to make these submissions.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gurr', written in a cursive style.

Greg Gurr  
Councillor – Patents Legislation Committee  
The Institute of Patent and Trade Mark Attorneys of Australia



**The Institute of  
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A.C.N. 004 194 263  
A.B.N. 78 004 194 263

21 October 2011

**BY E-MAIL TO: [mail.acip@ipaaustralia.gov.au](mailto:mail.acip@ipaaustralia.gov.au)**

Jeff Carl  
Secretariat  
Advisory Council on Intellectual Property  
PO Box 200  
Woden ACT 2606

Dear Mr Carl

**ACIP Issues Paper - Review of the Innovation Patent System of August 2011**

We refer to the ACIP Issues Paper titled "Review of the Innovation Patent System" ("Issues Paper") of August 2011 and thank you for inviting IPTA to make submissions.

**About IPTA**

The Institute of Patent and Trade Mark Attorneys of Australia ("IPTA") is a voluntary organisation representing registered patent attorneys, registered trade mark attorneys and student members in the process of qualifying for registration in Australia. The membership of IPTA includes over 87% of registered patent attorneys located in Australia and it is believed that its members make up more than 90% of registered patent attorneys in active practice in Australia. The membership of IPTA includes registered patent attorneys in private practice along with patent attorneys working in industry and others that practice as barristers. IPTA members represent large local and foreign corporations, SMEs, universities, research institutes and individual inventors.

**Submissions**

Our response to each of the questions set out in the Issues Paper is set out below.

**Question 1. Effectiveness in stimulating innovation**

Is the innovation patent system a useful adjunct to the standard patent system and an appropriate means to stimulate innovation by Australian small to medium business enterprises? Can you provide any empirical data or other evidence that supports your answer?

IPTA believes that the innovation patent system is a useful adjunct to the standard patent system. The fact that the users of the innovation patent system are predominantly Australian

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(84 percent of applicants, with more than half of all applicants being Australian individual applicants, as reported in Table 1 of the Issues Paper) strongly supports a conclusion that the innovation patent system is being utilised primarily by Australian small to medium business enterprises to protect their innovations. Whilst it may be difficult to directly correlate this to a finding that it is the innovation patent system that is stimulating such innovation, it would seem reasonable to imply that the innovation patent system is at least playing a part in such stimulation. Many would, however, argue that most "lower level" innovation *per se* would likely still occur without the innovation patent system.

Whilst it is difficult to positively conclude that the innovation patent system stimulates innovation *per se*, IPTA strongly believes that the innovation patent system does stimulate further development of innovations and commercialisation of such innovations. Without the benefit of any form of protection, many Australian small to medium business enterprises are not willing to invest in developing their innovations into a mature form and commercialising such innovations. IPTA members have, however, witnessed many small to medium business enterprises bringing their innovations to commercial reality, bringing benefit to the Australian public, once they have innovation patent protection in place. Small to medium businesses have also been built around innovations protected by innovation patents. Innovation patent protection provides such small to medium business enterprises with some comfort that their innovations cannot be freely copied and, in many cases, enables such enterprises to obtain funding for further development of their businesses around their innovations and/or to obtain government grant funding.

In general terms, therefore, IPTA believes that the innovation patent system is generally an appropriate means to stimulate innovation by Australian small to medium business enterprises.

**Question 2. Does Australia need a utility model?**

Is the objective of seeking IP rights for low level inventions still the main reason that inventors file innovation patents? If not, what is their main reason?

The main reason for applicants filing innovation patent applications varies significantly for different applicants and in different circumstances.

As noted above, the bulk of applicants for innovation patents are Australian individuals or small to medium businesses. The two key reasons for these applicants to file innovation patent applications are generally either to seek IP rights for lower level inventions (which might not be entitled to standard patent rights) or to seek IP rights at a lower cost than through the standard patent system, irrespective of the "level" of the invention. IPTA believes that this second reason primarily only relates to Australian individuals and small businesses who prepare and file their own innovation patent applications, without the benefit of professional advice or patent specification drafting. Cost is generally not such an issue for individuals and businesses that are willing to seek professional assistance, such as through IPTA members, as the cost of preparing a patent specification for an innovation patent is similar to that for a standard patent.

Innovation patent applications are also filed for other, significantly less common, strategic reasons. One such strategic reason is to obtain enforceable IP rights in a short time frame where the invention of an applicant for a standard patent is being exploited by a competitor and that competitor has tactically opposed (or is likely to tactically oppose) the standard patent application so as to delay grant of an enforceable standard patent and the

commencement of subsequent Federal Court infringement proceedings. This delaying tactic may delay the applicant from obtaining enforceable standard patent rights by four years or so (or even longer if the opposition is appealed to the Federal Court). This provides the infringing competitor with the opportunity to continue commercial exploitation of the invention to the detriment of the patent applicant. This strategic reason for filing an innovation patent is thus primarily a reaction to an infringing competitor exploiting deficiencies in the standard patent system. Unfortunately, the *Raising the Bar Bill* will effectively remove this strategic use of the innovation patent system by preventing the filing of any divisional applications after the deadline for filing an opposition in relation to a standard application (that is, three months after advertisement of acceptance). Infringing competitors will be able to freely delay the commencement of infringement proceedings, allowing them to continue exploiting others' inventions for several years without risk of early action being taken against them.

Another (again relatively uncommon) strategic reason for filing an innovation patent application is to obtain a "back-up" form of protection where an applicant for a standard patent has concern that its standard patent application may be vulnerable to being invalidated for lack of inventive step.

**Question 3. Costs**

Is the cost involved in obtaining the grant of an innovation patent a consideration for small to medium business enterprises? Can you provide any empirical data or other evidence that supports your answer.

The cost involved in obtaining the grant of an innovation patent is generally the subject of at least some consideration for small to medium business enterprises, however, just how much consideration varies on a case-by-case basis.

In the experience of IPTA members, where a small to medium business enterprise is willing to bear the cost of obtaining professional advice and having a patent specification professionally drafted by a registered patent attorney (whether it be for a standard patent application or innovation patent application), that enterprise will typically be willing to incur the additional costs associated with prosecution of a standard patent application if the applicant believes that the invention is of sufficient commercial importance and if advised that it may have a sufficient level of inventiveness to secure standard patent protection. The costs associated with the initial professional drafting and filing of an innovation patent application are generally similar to those for a standard patent application, given that both forms of application have the same requirements for disclosure and the like.

For individuals and small business enterprises that are not willing to pay for professional advice or drafting services, instead opting to prepare and file their own patent applications, we believe that cost is a significant consideration in deciding to self-file an innovation patent application rather than a standard patent application, which has the additional complexity and cost of compulsory examination. Unfortunately, however, innovation patents granted in relation to patent specifications drafted by inventors without the assistance of a registered patent attorney are, in the great majority of cases, likely to be invalid.

**Question 4. Certification**

Does the cost involved in obtaining certification of an innovation patent influence your decision on whether to seek certification?

IPTA believes the cost involved in obtaining certification of an innovation patent does regularly influence the decision of patentees as to whether to seek certification. The risk of having the innovation patent revoked or limited in scope is a further influencing factor. The decision on whether to seek certification is also often influenced by a desire for the patentee of an innovation patent to leave its competitors guessing as to whether their innovation patent is valid and as to what scope of enforceable protection might eventually be granted if certification is sought.

**Question 5. Comparison with trading partners**

Do you have any feedback on how other jurisdictions perceive innovation patents?

What are your experiences in dealing with the second-tier rights granted by our major trading partners – especially China, Japan and Korea?

How do these experiences compare with your experiences in Australia?

In the experience of IPTA members, patent attorneys and patent applicants in other jurisdictions perceive innovation patents as a particularly useful strategic tool and a useful system for lower level inventions. Where protection for such lower level inventions is not available (or pursued) in their own jurisdiction, however, it does not seem common for foreign patent applicants to seek innovation patent protection only in Australia. Larger foreign businesses seeking patent protection in multiple jurisdictions will typically adopt a common patenting strategy across all jurisdictions, so do not generally consider innovation patents for Australia in their strategy.

In the experience of IPTA members, not a lot of Australian applicants seek second-tier rights in other jurisdictions, and accordingly we are not in a position to provide meaningful comment on experiences with these systems.

**Question 6 – Uncertainty**

Do you have any comments on the uncertainty that arises from the delayed certification process established under the innovation patent legislation?

IPTA believes that the uncertainty that arises from the delayed certification process is a key disadvantage of the present innovation patent legislation.

The fact that an innovation patent may be granted on the basis of any patent specification which meets basic formality requirements, and may not even include any claims, provides uncertainty for the public, who can not determine the scope of any enforceable rights which may eventually be granted through the certification process. This uncertainty, however, is not unlike the uncertainty that exists with the delayed examination process that presently exists for standard patent applications, where it is not uncommon for examination not to commence until six years or more after the filing date.

Many innovation patents that are not immediately subject to the certification process upon grant are self-filed applications without professionally drafted patent specifications. The potential enforceable scope of protection for these innovation patents is often more unclear than for innovation patents that have been professionally drafted.

IPTA members have experienced difficulty in advising their clients in relation to uncertified innovation patents, as they are not able clearly to advise their clients as to what they may



exploit without the risk of infringement. This uncertainty stifles competition and follow-on innovation, potentially giving the holder of an uncertified innovation patent, whom may not be entitled to any enforceable rights, a broad scope of effective protection until the innovation patent is certified (or revoked). Whilst third parties do have an opportunity to request examination of an uncertified innovation patent if the uncertainty of the potential enforceable scope is of concern, this option is rarely pursued. IPTA believes that one key reason for this is that a third party examination request may serve to alert the patentee to the interest of its competitors and to the possibility of infringing activity that either is occurring or may occur in the near future.

The present uncertainty is compounded by the fact that innovation patent applications may be filed as divisional applications of any pending standard patent application. With the significant delays currently being experienced in examination before the Australian Patent Office, it can be seven years or more from filing a standard patent application until such application proceeds through to acceptance (or lapsing). As a result, even when a competitor is confident that standard patent protection will not be afforded to a particular invention defined (or disclosed) in a pending standard patent application, that competitor must consider the possibility of a divisional innovation patent application subsequently being filed and potentially providing enforceable protection, given the lower threshold required for an innovative step as compared to an inventive step. This uncertainty has been addressed to some extent in the *Raising the Bar Bill*, preventing the filing of divisional applications more than three months after advertisement of acceptance and seeking to reduce some delays in examination.

Several options would seem to be available to address the uncertainty that arises from the delayed certification process (and the available delay in filing divisional innovation patent applications). However, a balance needs to be struck between the public interest and the interests of innovators. Several possible options are discussed below:

- a) Full examination before grant – One obvious way of reducing the present uncertainty arising from delayed certification would be to conduct full examination before the grant of an innovation patent. Apart from greatly reducing the present uncertainty, conducting full examination before grant would also avoid the current widely held misconception that a granted innovation patent provides some form of enforceable IP right that has been subject to some level of scrutiny. This solution thus initially seems quite attractive when the public interest only is considered. However, examination before grant would generally significantly increase the up-front costs for applicants of innovation patent applications and would therefore reduce the incentive for small to medium enterprises to use the innovation patent system. This would also be contrasted to the standard patent system where examination costs can be delayed, typically by close to five years from the filing date. Accordingly, IPTA believes that full examination before grant of an innovation patent would not provide an appropriate balance between the interests of the public and those of patent applicants.
- b) Partial examination before grant – An alternate option to full examination before grant would be to conduct a limited form of examination beyond the present formalities only examination. Such a limited form of examination might include examination on Section 40 matters only. This option would avoid the potentially significant cost of searching and examination based on patentability issues, but should ensure that innovation patents are granted

with claims that clearly define the scope of monopoly protection being sought and ensure that the scope is commensurate with the disclosure provided. The present uncertainty arising from granted innovation patents that have not been professionally drafted, and which either lack any claims or do not have claims of a clear and supported scope, would be significantly ameliorated with this option.

- c) Damages from certification date – An option to provide an incentive for patentees of innovation patents to proceed with certification at an early stage would be to restrict the availability of an award of damages or account of profits to commence only from the date of certification. Patentees that are serious about protecting their inventions and enforcing their rights in relation to the same would be encouraged to seek certification at an early date. IPTA believes that this system would provide an appropriate balance between the interests of the public and patent applicants.
- d) Reduced standard application pendency – To reduce the uncertainty that arises resulting from the delay in examination of standard patent applications, thereby delaying the deadline for filing any divisional innovation patent applications, various measures set out in the *Raising the Bar Bill* seek to reduce the pendency of standard patent applications as noted above. Further effort, however, needs to be made in reducing the significant delays in examination in the Australian Patent Office to further reduce this uncertainty.

#### **Question 7. Relief from Infringement**

Are the current remedies for infringement of an innovation patent appropriate? If not, why not and what should be changed and how?

The current remedies for infringement of an innovation patent, which are identical to those available for a standard patent, are arguably inappropriate. There is an argument that the remedies available for what is intended to be a lower level patent should be lower than those for what is intended to be a higher level patent (i.e. a standard patent).

There are, however, significant drawbacks associated with various lower levels of remedy.

Some possible options for lower level remedies, and the associated advantages and drawbacks include:

- a) No injunctive relief - One option would be to remove the availability of injunctive relief, leaving the only remedies as damages or an account of profits for past infringing activities and a reasonable royalty set by the Federal Court in relation to future infringing activity. Having the Federal Court consider what is a "reasonable royalty" would, however, further complicate, and increase the cost of, infringement proceedings as well as uncertainty in relation thereto. In many ways seeking a reasonable royalty would be similar to compulsory licence proceedings before the Federal Court which have historically been unsatisfactory. The unavailability of injunctive relief would also greatly reduce the incentive for infringing parties to negotiate a licence with a patentee, given that the worst outcome of infringement proceedings would effectively be similar to what could be achieved through licensing negotiations. Perhaps more liberal awarding of additional damages under Section 122 (1A) of the

*Patents Act 1990* for flagrant infringement would alleviate this concern to some degree. IPTA does have concerns that the unavailability of injunctive relief, and the possibility of being forced into what is effectively a commercial relationship with infringing competitors by way of a reasonable royalty, would act as a significant disincentive for inventors to pursue innovation patent protection.

- b) Injunctive relief only - An alternative may provide that, whilst an injunction is available, damages or an account of profits would not be available. This would, however, also reduce the disincentive for competing parties to infringe an innovation patent. Even if infringement proceedings were commenced, the infringing party would likely take any action available to delay the proceedings so that they may continue to infringe until the proceedings are concluded, with no disadvantage. This could perhaps be partly addressed by providing that damages or an account of profits would only be available as from the date infringement proceedings are commenced.
- c) Injunction only for flagrant infringement – A further option would be to maintain the availability of damages or an account of profits, but limit circumstances where injunctive relief is available. Such circumstances may be where there has been flagrant infringement (consistent with the current provisions of Section 122 (1A) in relation to assessments of additional damages) or perhaps injunctive relief might only be available where “copying” is established, using principles from copyright law. In circumstances where an injunction is not provided, then a reasonable royalty would be an appropriate alternate form of relief for ongoing exploitation of the invention. This option should provide the patentee with protection against competitors who wilfully and intentionally set out to infringe a competitor’s innovation patent yet will still reduce the level of relief available for other, less flagrant, circumstances of infringement. This would thus provide an incentive for inventors with “higher level” inventions to utilise the standard patent system rather than the innovation patent system. There are still, however, concerns that the availability of injunctive relief in certain circumstances only would again increase costs, complexity and uncertainty of infringement proceedings.

#### **Question 8. Reduced remedies for infringement**

If the remedies for infringement were reduced and, for example, no longer included injunctive relief, would the costs of obtaining an innovation patent be justified?

If the remedies for infringement were reduced, such as, by removing the availability of injunctive relief, or by virtue of any of the other alternatives discussed above responsive to question 7, the costs of enforcing an innovation patent would likely not be justified in many circumstances.

As to whether the costs of obtaining an innovation patent in the first place were justified would be greatly dependent upon the level of reduction in remedies available and perhaps the commercial importance of the invention. In IPTA’s experience, it is already a practice of many patent applicants to obtain either innovation patent or standard patent protection without intending to ever enforce their rights if the patent were infringed, either as a result of the risk of the patent being invalidated if it is of doubtful validity or as a result of the excessive costs of enforcing a patent. The cost of obtaining an innovation patent is relatively

insignificant in comparison to the costs of enforcement. Many patent applicants rely on their competitors having a general respect for patent rights and not purposefully infringing such rights, without ever intending on seeking to enforce their rights before the Federal Court.

**Question 9. Divisional innovation patents**

What your experiences in dealing with divisional innovation patents?

If you have filed a divisional innovation patent, why did you file it?

Do you have any comments on the impact on competition and innovation that might arise from patentees who fast track the grant and issuance of a certificate of examination for a divisional innovation patent?

Divisional innovation patent applications are regularly filed for strategic purposes so as to provide enforceable rights in a timely manner to overcome the difficulties that result from large delays in examination of standard patent applications by the Australian Patent Office and from the actions of infringing parties in preventing applicants for standard patents from obtaining enforceable rights in a timely manner by commencing extended patent opposition proceedings. The ability to file a divisional innovation patent application in circumstances where an infringing party has strategically opposed the grant of a standard patent to delay the patent applicant from taking infringement action arguably stimulates use of the patent system, with applicants knowing that they will generally be able to take infringement action against infringing parties in a timely manner.

IPTA does not see anything untoward in using this strategy to obtain enforceable patent rights in a timely manner. IPTA also does not believe that this strategy has an adverse impact on competition, however it does impact the ability of competing parties to compete in a manner which would infringe a patent applicant's rights. The need for filing of divisional innovation patents would be greatly reduced if standard patent applications were examined by the Australian Patent Office in a timely manner and opposition proceedings dealt with expeditiously.

As discussed above, unfortunately the *Getting the Balance Right Bill* removes the ability of standard patent applicants to file divisional innovation patent applications during opposition proceedings. The *Getting the Balance Right Bill* also seeks to partially address the delays that prompt the filing of divisional innovation patent applications, although the core delay still remains in delayed examination by the Australian Patent Office. Accordingly, IPTA expects that the strategic use of divisional innovation patent applications will decrease after implementation of the *Getting the Balance Right Bill*.

**Question 10. Lost opportunities**

Did you know that applicants for standard patents can convert their application into an innovation patent if they have problems with inventive step during the patent examination process? Would you be willing to pursue this option?

IPTA members are generally aware that applicants for standard patents can convert their application in to an innovation patent application if they have problems with inventive step during the examination process and, where appropriate, do generally advise their clients of this option. Patent applicant reactions to such advice does vary. Given delays in examination before the Australian Patent Office, there is often insufficient term left for the filing of an innovation patent to be worthwhile. This may be one reason why many standard

applications lapse during examination due to problems with inventive step without any conversion to an innovation patent application.

**Question 11. Computing**

Should the excluded subject matter for an innovation patent be amended to include computer software? Why or why not?

IPTA does not see any basis as to why specific subject matter that is otherwise patentable should be excluded from the subject matter that is suitable for an innovation patent. The present flexible manner of manufacture test is greatly preferred over a list of specific exclusions from available patentable subject matter.

**Question 12. Evergreening**

Should the excluded subject matter for an innovation patent be amended to include chemical or pharmaceutical compositions? Why or why not?

As with our response to question 11 above, IPTA does not see any basis for excluding chemical or pharmaceutical compositions from subject matter available to be protected by way of innovation patent. As noted in the Issues Paper there is no evidence that the practice of "evergreening" discussed at Section 7.4 is occurring in Australia and, accordingly, there would not appear to be any mischief that exclusion of pharmaceutical or chemical compositions would prevent. Further, an innovation patent application filed for the protection of different methods of use or administration of a patented medicine just prior to the end of the term of a patent would not provide protection for the composition described in the original patent and, accordingly, would not result in a patent being granted "in relation to the goods" as defined in the TGA Act preventing any third party from gaining approval for the composition.

**Question 13. New opportunities or unintended consequences**

Are there any new opportunities for enhancing the innovation patent system? Are there any unintended consequences arising from its implementation to date?

Following the Federal Court and Full Federal Court decisions in *Delnorth v Dura-Post*, there has been much commentary contending that the present inventive threshold for the innovative step test applicable to innovation patents is set too low. Whilst IPTA agrees that the inventive threshold for the innovative step test is perhaps set too low, there are no immediately apparent alternative tests that may be set at a suitable level. Further, given that it has taken some eight years since implementation of the innovation patent system for the provisions to be properly judicially considered, IPTA is particularly concerned that any significant amendment to the innovative step test would merely serve to create uncertainty for a further significant period until any amended provisions are judicially considered. Whilst, in some quarters there has been some concerns raised with the judicial interpretation of the test for innovative step, IPTA fully supports the judicial interpretation given and it does not believe that the test could reasonably have been interpreted in an alternate manner.

Some suggestions have been made that the innovative step test should be amended to allow the common general knowledge to be considered together with a single prior art disclosure, as opposed to the present test which only allows for consideration of a single prior art disclosure, albeit considered through the eyes of a person skilled in the art possessed of the

common general knowledge (as is the case with novelty considerations). Allowing a single prior art disclosure to be combined with the common general knowledge in assessing innovative step would, however, arguably provide a significantly higher inventive threshold than the inventive step test proposed in the *Getting the Balance Right Bill*. Unlike the inventive step test, it would not be necessary to establish that a claimed invention would have been obvious in light of the common general knowledge considered together with such a single prior art disclosure. Instead it would merely be necessary to establish that if the common general knowledge were combined with the single prior art disclosure, either the invention would be arrived at or any missing feature or features would not provide a substantial contribution to the working of the invention.

Alternate innovative step tests that have been proposed in some quarters include tests that would be equivalent to the present inventive step test for standard patents, including the present Section 7 (3) limitation on prior art disclosures that may be considered together with the common general knowledge or, alternatively a test equivalent to the inventive step test under the *Patents Act 1952*, in which inventive step may only be considered in light of the common general knowledge. Whilst these proposals do have some merit there is a danger that this could raise the inventive threshold too high and would act as a great disincentive for small to medium businesses utilising the innovation patent system.

One unintended consequence arising from implementation of the innovation patent system to date which could be addressed is the early publication of innovation patents in circumstances where the granted innovation patent is subsequently revoked following unsuccessful certification examination. The patentee thus discloses full details of its invention to the public without obtaining any rights in exchange. Some Australian businesses are thus reluctant to file innovation patent applications due to the risk of immediate publication.

IPTA recommends that some form of delayed publication should be made available for innovation patents. One option would be to allow (but not mandate) pre-grant examination which would result in grant, certification and publication effectively occurring at the same time. If the application was rejected during the examination process (which should be finalised well before the usual 18 month publication period), the application would not be published. The applicant would also have an opportunity to withdraw such a pending innovation patent application during the examination proceedings and before publication.

**Question 14. Other comments**

Do you have any other comments?

IPTA does not have any further specific comments.

**Conclusion**

Whilst there are some deficiencies in the present innovation patent system IPTA believes that the innovation patent system in its present form is still an appropriate form of patent protection to stimulate innovation in Australian small and medium business enterprises. Whilst the present system does have some unintended consequences, including the ability of larger enterprises to use the system strategically to protect their higher level inventions, IPTA does not believe that there is sufficient evidence that such use of the system is sufficiently widespread to outweigh the advantages that are provided.

Whilst there are opportunities to improve the system by reducing the uncertainty that results from delayed certification (and filing) of innovation patents, reducing the remedies available

to a level more appropriate for lower level inventions and perhaps increasing the inventive threshold for innovation patents, care must be taken to balance the public interest and the interests of innovators to ensure that an incentive is still provided for utilising the innovation patent system. In particular, IPTA recommends that caution should be taken if considering both a reduction in the remedies available for infringement of innovation patents and an increase in the inventive threshold as a combination of both these changes may act as a great disincentive against use of the innovation patent system.

We trust the above submissions will assist ACIP in further considering its report to the Federal Government and would be pleased to provide further comment if desired. We would also appreciate the opportunity to remain involved in any further consultation. Thank you again for providing us with the opportunity to make these submissions.

Yours sincerely



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Secretariat

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## CONFIDENTIAL COMMUNICATION

Dear Sir

### RE: ACIP Options Paper – Review of the Innovation Patent System

IPTA refers to the ACIP Options Paper titled “Review of the Innovation Patent System” (“ACIP Options Paper”) of August 2013 and thank you for providing IPTA with an opportunity to make submissions.

#### About IPTA

The Institute of Patent and Trade Mark Attorneys of Australia (“IPTA”) is a voluntary organisation representing registered patent attorneys, registered trade mark attorneys and student members in the process of qualifying for registration in Australia. The membership of IPTA includes over 87% of registered patent attorneys located in Australia and it is believed that it’s members make up more than 90% of registered patent attorneys in active practice in Australia. The membership of IPTA includes registered patent attorneys in private practice along with patent attorneys working in industry and others that practice as barristers. IPTA members represent large local and foreign corporations, SME’s, Universities, Research Institutes and Individual Inventors.

#### Background and Overview

IPTA has previously made submissions as part of the current ACIP review and IP Australia’s own recent review of the innovation patent system. Specifically, IPTA made a submission on 21 October 2011 (“IPTA Issues Paper Submission”) responsive to the ACIP Issues Paper of August 2011 (“ACIP Issues Paper”). IPTA also made a submission on 25 October 2012 (“IPTA Consultation Paper Submission”) in response to IP Australia’s Consultation Paper entitled “Innovation Patents – Raising the Step” of 24 September 2012 (“IPAus Consultation Paper”). IPTA understands that ACIP has already been provided with, and reviewed, the IPTA Consultation Paper Submission.

Following discussions with the Director General of IP Australia in relation to the IPTA Consultation Paper Submission, IPTA sent a follow-up letter dated 16 November 2012 to IP Australia explaining how a modified form of the present innovative step test, based more closely on the test set out by Dixon J in *Griffin v Isaacs*<sup>1</sup>, might be framed, as will be further discussed below. IPTA is not aware that ACIP has been provided with a copy of that letter, and accordingly, a copy is attached for your reference.

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<sup>1</sup> *Griffin v Isaacs* (1938) 1B IPR 619



As set out in IPTA's earlier submissions, IPTA remains of the view that the innovation patent system remains an appropriate means to stimulate innovation by Australian small to medium business enterprises and that it is an appropriate means for protecting lower level inventions that may not be entitled to standard patent protection. IPTA also believes that the innovation patent system also continues to serve the function of providing a fast route to a granted and certified patent which can be used in enforcement action in a similar manner to the former petty patent. It is important to note, since it appears often forgotten, that the original proposal by ACIP for the introduction of the innovation patent system, acknowledged, and described as "legitimate", this important function.

The present innovation patent system, however, does suffer from some deficiencies, particularly relating to:

- a) the innovative threshold perhaps being set too low;
- b) uncertainty resulting from delayed examination and poor quality of granted innovation patents;
- c) self-filing applicants losing the opportunity to secure valid patent protection in Australia and elsewhere as a result of early publication of their deficient innovation patent specifications; and
- d) a broader lack of understanding of the innovation patent system.

These deficiencies are discussed in some detail in our earlier submissions, and will not be repeated here.

In these submissions, IPTA suggests some relatively minor amendments to the innovation patent system that should at least partly address the above deficiencies, particularly by:

- e) amending the innovation patent test to more closely align with the test set out in *Griffin v Isaacs*;
- f) restricting any award of damages or account of profits to being from the date of certification of an innovation patent;
- g) conducting examination of matters under section 40 of the *Patents Act 1990* ("the Act") prior to grant; and
- h) changing the name of the right afforded by the grant of an innovation patent, perhaps to "innovation patent application", "innovation registration" or "innovation certificate".

### **Submissions on Options**

IPTA's submissions below are limited to discussion of the various options set out in chapter 5 of the ACIP Options Paper, including further explanation of the suggestions above. For ease of cross-reference, IPTA has adopted the same section numbering as in the ACIP Options Paper.

#### **5.4 Option A – No Change**

Option A set out in section 5.4 of the ACIP Options Paper is for no changes to be made to the present innovation patent system. The reasons put forward supporting Option A are that substantial changes have recently been made to innovation patent legislation by way of the *Raising the Bar Act* and that Australian individuals and SMEs already perceive that the innovation patent system is generally satisfying their needs.

IPTA does not support Option A.

Whilst the *Raising the Bar Act* does affect the innovation patent system, primarily by increasing the level of disclosure required for enablement and for supporting a claim, it will likely be several years until the impact of these changes are clarified by the Federal Court. Further, the changes implemented with the *Raising the Bar Act* do not address the deficiencies in the innovation patent system noted above.

Whilst IPTA believes that the innovation patent system, in its present form, does generally satisfy the objective of promoting innovation by individuals and SMEs, IPTA believes there is an opportunity to make some relatively minor changes that would result in significant improvements to the system and that these improvements should be made in the short term to capitalise on the effort that has gone into the present ACIP review.

#### **5.5 Option B – Abolish the Innovation Patent System**

Option B set out in section 5.5 of the ACIP Options Paper is to abolish the innovation patent system. The issues put forward to support this option, listed in sub-section 5.5.1 of the ACIP Options Paper, are that the system is under utilised, it is not achieving its intended goals or policy outcomes, it is being strategically used by sophisticated users, there is no reliable evidence to corroborate the view that the system stimulates innovation, the system creates uncertainty, the Australian patent system is being devalued by poor quality uncertified innovation patents, the United Kingdom rejected the introduction of a utility model system, there are alternative ways to protect low level inventions and very few of our major trading partners have utility models.

IPTA does not support Option B.

IPTA also submits that many of the issues listed in sub-section 5.5.1 of the ACIP Options Paper supporting abolition are misconceived. Many of these issues have already been discussed in the IPTA Issues Paper submission and IPTA Raising The Step submission and will not be raised again here. Several of these issues could also be readily addressed by modification to the innovation patent system, as will be further discussed below.

Section 5.3 of the ACIP Options Paper suggests the possibility of abolishing the innovation patent system and replacing the same with an alternate system for protecting low-level inventions, particularly by allowing for the registration of functional designs under the Australian Designs law. The ACIP Options Paper incorrectly suggests that designs, the features of which serve only a functional purpose, are not presently registrable under Australian law. This, however, is not the case. There is no restriction in the *Australian Designs Act 2003* which prohibits the registration of designs which serve only a functional purpose (or even merely include a functional purpose), and

there is no restriction against designs which are “solely dictated by the products technical function” as is the case in the UK.

## **5.6 Option C – Change the Innovation Patent System**

The third option set out in section 5.6 of the ACIP Options Paper, is to change the innovation patent system, with various potential changes having been listed, each of which will separately be discussed below.

### **5.6.1 Recent Changes**

As noted in paragraph 5.6.1 of the ACIP Options Paper, there have been several recent changes to the innovation patent system as a result of implementation of the *Raising the Bar Act*. IPTA believes that the most significant of these changes are those affecting the deadline for filing a divisional innovation patent application and the increased sufficiency and claim support requirements.

The now earlier deadline for filing divisional patent applications will effectively prevent patent applicants from filing divisional innovation patent applications during opposition proceedings or pre-grant court proceedings, as noted in the ACIP Options Paper. Whilst the practice of strategically filing divisional innovation patent applications during such proceedings was perceived by some as an abuse of the innovation patent system, IPTA's view is that such a practice was not at all untoward and was often necessary to enable patent applicants to justifiably enforce their rights where an infringing party had taken strategic action through opposition proceedings or subsequent Federal Court appeal proceedings to delay the grant of enforceable patent rights. For example, in the Delnorth case referred to in the ACIP Options Paper, the party eventually held to have been infringing Delnorth's rights, Dura-Post, opposed Delnorth's standard patent application to delay the granting of enforceable rights. Almost seven years passed from when Dura-Post opposed Delnorth's standard application until the standard application was finally resolved following an opposition, appeal to the Federal Court, several re-examination actions and a further subsequent appeal to the Federal Court. The innovation patents enforced by Delnorth in fact expired prior to final resolution of the standard patent. It can thus be seen that the newly restricted deadline for filing divisional innovation patent applications severely hampers the availability of patent applicants to utilize the innovation patent system to enforce their rights against infringements identified during prosecution of a standard patent application.

The higher sufficiency of disclosure requirements introduced by the *Raising the Bar Act* may have a significant effect on the ability of applicants to obtain enforceable innovation patent rights, especially for self-represented applicants as noted in the ACIP Options Paper. Whilst this may seem to be in the public interest, there is now an even greater likelihood that self-filing applicants will not be able to secure enforceable patent rights for their innovations, which may well be sufficiently innovative, due to deficiencies in the self-drafting of their specification. Early publication of the insufficient disclosure, which occurs at grant prior to any substantive examination, will in many cases prevent an applicant from later pursuing patent protection in Australia or overseas. This will be particularly detrimental to Australian individuals and SMEs, who are more likely to prepare their own patent specifications and gain a false sense of security when an innovation patent is granted with such a deficient specification. This could be readily addressed

by ensuring that innovation patent applications are not published unless and until they have been assessed for sufficiency of disclosure and other matters, as will be further discussed below.

Whilst the ACIP Options Paper states there has been an increase in the inventiveness level applicable to innovation patents due to the removal of the geographical restriction on common general knowledge used for assessing innovative step, IPTA does not believe that this geographical restriction removal will have any particular bearing on innovative step. In the test for inventive step under section 7(2) of the *Act*, common general knowledge may be considered separately or together with prior art information in assessing whether the invention would have been obvious. However, the role of common general knowledge in the innovative step test of section 7(4) of the *Act* is quite limited and it cannot be considered together with prior art information. As was made clear in the Delnorth Federal Court appeal case<sup>2</sup>, the assessment of whether a difference over the prior art involves no substantial contribution to the working of the invention is a factual inquiry from the perspective of a person skilled in the art possessed of the relevant common general knowledge. This is in effect no different to the role of common general knowledge in assessing novelty under section 7(1) of the *Act*, which is again a factual inquiry from the perspective of a person skilled in the art possessed of the relevant common general knowledge.

#### **5.6.2 Raise the Level of Innovation**

There is a commonly held view that the level of inventiveness required to establish an innovative step is lower than that required to establish inventive step as applies to a standard patent. Whilst this may generally be the case, the tests are fundamentally different and, as a result, it cannot be said that the innovative step test is necessarily less onerous than the inventive step test. This is largely due to the fact that any assessment of inventive step is made at the priority date of the relevant claim, without the benefit of hindsight. When adopting the problem – solution approach to considering inventive step, the starting point for any such assessment is at the problem to be solved by the invention. Any assessment of innovative step, however, is conducted with hindsight and full knowledge of the prior art being compared against the invention claimed. Any prior art information may be utilized in the assessment of innovative step, irrespective of whether that information would have been understood or regarded as relevant by the person skilled in the art. This can be contrasted against an assessment of inventive step (even following implementation of the *Raising the Bar Act*) which must involve consideration of whether, without the benefit of hindsight, a person skilled in the art would have found the invention obvious. In cases where the prior art being considered could not be understood by a person skilled in the art, or would not have been considered relevant, it would be very difficult to establish a lack of inventive step. In the Delnorth series of cases<sup>3</sup>, whilst certain claims were found to be invalid as lacking an innovative step, claims that were identical in scope were found to possess an inventive step.

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<sup>2</sup> *Dura-Post (Australia) Pty Ltd v Delnorth Pty Ltd* (2009) 81 IPR 480 at 498

<sup>3</sup> *Delnorth Pty Ltd v Duro-Post (Aust) Pty Ltd* (2008) 78 IPR 209, *Delnorth Pty Ltd v Commissioner of Patents* (2013) 100 IPR 175

Concerns have been raised, particularly in the IPAus Consultation Paper, that innovation patents inappropriately provide protection for obvious innovations. The innovation patent system, however, was specifically designed to protect lower level inventions that are obvious, as is discussed in some detail in the IPTA Consultation Paper submission, which will again not be repeated here.

Notwithstanding the above, IPTA does agree that the inventive threshold for the innovative step test has perhaps been set too low. Any amendment to the innovative step test must, however, not be such as to create further uncertainty for a significant period until any amended provisions are judicially considered, and must not be set too high so as to render the innovation patent system ineffective (as would be the case with IP Australia's proposal to replace the innovative step test with the present inventive step test applicable to standard patents, as proposed in the IPAus Consultation Paper).

The innovative step test set out in section 7(4) of the *Act* was intended to be a modified form of the expanded novelty test set out in *Griffin v Isaacs* by Dixon J. IPTA believes that an innovative step test based on the *Griffin v Isaacs* test is still an appropriate test that provides appropriate protection for lower level inventions that do not satisfy the inventive step test required for standard patents, and which has an historical basis to reduce any uncertainty that might otherwise be applicable to a new test.

As discussed in IPTA's earlier submissions, a deficiency with the present innovative step test set out in section 7(4) of the *Act* is that the assessment as to whether differences between the invention claimed and a prior art disclosure make a substantial contribution to the working of the invention is made in isolation of the prior art, particularly the working of the prior art.

In *Griffin v Isaacs*, Dixon J set out the test as follows:

*"Where variations from a device previously published consist in matters which make no substantial contribution to the working of the thing or involve no ingenuity or inventive step and the merit if any of the two things, considered as inventions, is the same, it is, I think, impossible to treat the differences as giving novelty."*

As noted by Gyles J, in the Delnorth case <sup>4</sup> the test set out by Dixon J includes two disjunctive concepts, one being "make no substantial contribution to the working of the thing" and the other being "involve no ingenuity or inventive step", and it is the first alternative that has been adopted in the innovative step test set out in section 7(4). The present innovative step test, however, does not give regard to "the merit if any of the two things". Once differences have been identified between the invention and the prior art, then the present assessment as to whether those differences make no substantial contribution to the working of the invention may effectively be made without reference to the working of the prior art.

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<sup>4</sup> *Supra*, at para [59]

This is the approach taken by Gyles J, in the Delnorth case, when assessing the differences in the material of the post defined in the Delnorth patents and that of the plastic post disclosed in the prior art. Specifically, Gyles J stated:<sup>5</sup>

*"Each of the claims involves construction by sheet spring steel. The SupaFlex post is plastic. The materials are quite different, although, no doubt, they each have the same objective. As I have endeavoured to explain, the question is not whether a flexible sheet steel is better than flexible PVC – it is certainly different. It cannot be seriously argued that the material sheet spring steel does not make a substantial contribution to the working of the roadside post claimed in each claim."*

Here once Gyles J has established that the material sheet spring steel differs from the material disclosed in the prior art, he then assesses whether that sheet spring steel material makes a substantial contribution to the working of the roadside post. IPTA suggests that a more appropriate test, more in line with the test set out in *Griffin v Isaacs*, would be that the working of the invention should be considered against the working of the prior art. In the Delnorth case this would require an assessment of whether contributions made by the sheet spring steel material to the working of the post were significant compared to the contribution of the prior art plastic material.

Another simple example may be for a claimed invention for a table with a screw securing a leg to the table top, assessed against a prior art disclosure of a table with a nut and bolt securing the leg to the table top. The difference between the claimed invention and the prior art would be the screw securing the leg to the table top. Assessing this difference with the present test of section 7(4), there would be an argument that the screw did make a substantial contribution to the working of the table, as it firmly secures the leg to the table top. If, however, the working of this difference were considered against the working of the prior art, it could be seen that the screw does not contribute to the working of the table in any substantial way that differs to the working of a nut and bolt securing of the prior art table.

IPTA proposed a specific amendment to the test set out in section 7(4) of the Act in our letter of 16 November 2012 to IP Australia in the following terms (amended below to take into effect the *Raising the Bar Act* amendment to removing the geographical restriction on common general knowledge):

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

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<sup>5</sup> *Supra*, at para [63]

As acknowledged in the ACIP Options Paper, an alternative test IPTA has suggested is to apply the inventive step test that was applicable under the *Patents Act 1952*, assessing whether the invention claimed would have been obvious having regard to common general knowledge only. Whilst IPTA does prefer the modified form of the *Griffin v Isaacs* test as discussed above, this alternative suggestion would still be acceptable to IPTA, particularly given that this test would have a degree of certainty. Concerns are raised in the ACIP Options Paper that current practices relating to quick retrieval and use of digital information would generate difficulties in distinguishing between what is generally known and what can be readily converted into what is known. IPTA does not, however, perceive particular difficulty in this regard. The fact that information is readily available and able to be converted into what is known does not result in such information forming part of the common general knowledge.

IPTA does not support the LCA proposal referred to in the ACIP Options Paper to amend the innovative step tested out in subsection 7(4) of the *Act* to permit direct reference to the common general knowledge in combination with additional prior art information. In our view, this would result in a test with a significantly higher inventive threshold than that which applies to the test for inventive step, as it would effectively allow the combination of any aspects of what was well known with a prior art disclosure in any manner, without establishing that such a combination would have been obvious.

### **5.6.3 Reduce Remedies**

Paragraph 5.6.3 of the ACIP Options Paper provides two alternate options for reducing remedies available for infringement of innovation patents.

First, IPTA agrees that reducing remedies by removing injunctive relief entirely would reduce the attractiveness of innovation patents and drive undesirable behaviours of infringers. In particular, the unavailability of injunctive relief would greatly reduce the incentive for infringing parties to negotiate a licence with a patentee and would otherwise greatly reduce the risk in engaging in infringing activity.

The first option provided in the ACIP Options Paper of removing injunctive relief for innovation patents that are not being commercially exploited has some merit. However, potentially complicated tests would need to be established to determine what constitutes sufficient commercial exploitation for injunctive relief to be available. Would a single commercial sale of a product, purely for the purpose of making injunctive relief available, be sufficient? Would the act of seeking regulatory approval, which may be required before commercial exploitation is possible, be sufficient? Accordingly, there would likely be increased uncertainty as to whether injunctive relief would be available, and additional costs in establishing that there has been a requisite degree of commercial exploitation. Additional costs would also be incurred in establishing that a product being commercialised is in fact within the scope of claims being enforced.

The alternate option provided of reducing the term of injunctive relief by an amount equal to the delay in seeking certification also has some merit, however IPTA suggests an alternative, but similar, option.

In particular, IPTA suggests that an award of damages or an account of profits should only be available from the date of certification. This would encourage patentees to seek early certification of innovation patents that are of particular commercial value, significantly reducing the uncertainty to the public. Following the recent decision of Middleton J in *Britax v Infa-Secure*<sup>6</sup>, damages or an account of profits are potentially available back to the filing date of the parent application from which any divisional innovation patent claims priority. This is particularly problematic given that, since implementation of the *Raising the Bar Act*, divisional applications (including divisional innovation patent applications) can be filed in respect of subject matter that is enabled by, yet not supported by, the disclosure of a parent application. Accordingly, a divisional innovation patent can validly be granted on the basis of an incidental disclosure, perhaps in a drawing only, of a parent application without any support being provided. A third party, having conducted due diligence and identifying that a particular application does not pose a particular infringement risk, could be faced with an award of damages dating back several years prior to claims directed to the infringing product being introduced into any divisional innovation patent during the certification process. Apart from this problem with divisional innovation patents, the fact that innovation patents can be granted without any claims defining the invention, with claims only being added during the certification process, makes it particularly difficult for third parties to assess infringement risks. IPTA suggests that only making damages or an account of profit available from the date of certification will largely address this problem.

#### **5.6.4 Limit the Monopoly**

Paragraph 5.6.4 of the ACIP Options Paper sets out a proposal to restrict the monopoly of an innovation patent to a single embodiment.

IPTA does not support this proposal.

The entire patent system of Australia, and at least almost all other countries, is based on an assessment of monopoly by construing claims defining the invention. The use of claims defining the scope of monopoly provides significant certainty both to the patentee and to third parties.

If claims for innovation patents were to be removed, instead providing protection for a single embodiment as disclosed or illustrated, would provide significant uncertainty as to exactly what the scope of monopoly protection is afforded. It would also be particularly difficult to assess the validity of any such innovation patent. If such an innovation patent were in relation to a single embodiment of a relatively complex machine with a large number of inter-connected parts, would infringement be avoided if a bolt securing two parts were replaced with a rivet?

#### **5.6.5 Change Processes – Formalities Check, Compulsory Certification**

Section 5.6.5 of the ACIP Options Paper provides options for changing the processing of innovation patents, which IPTA understands to address the significant uncertainty that currently arises by virtue of the fact that innovation patents are granted following only a very rudimentary formalities check, which does not even require the existence of any claim.

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<sup>6</sup> *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd* [No. 3] [2012] FCA 1019



Reducing uncertainty could of course best be achieved by ensuring full examination of innovation patent applications prior to grant. However the significant resulting increase in up-front costs for applicants would greatly reduce the incentive for SMEs to use the innovation patent system. Full examination upon filing would also be significantly inconsistent with examination of standard patent applications, which are typically not examined until five years or more from filing.

IPTA suggests that an appropriate compromise would be to conduct partial examination prior to grant, particularly examining for compliance with section 40 of the *Act*, including the inclusion of up to five claims that clearly and succinctly define the invention and are supported by the matter disclosed in the specification, and that there is sufficiency of disclosure. Such examination could be conducted at a greatly reduced cost as compared to that involved in conducting searches and assessing patentability under section 18 of the *Act*.

Conducting such a limited form of examination prior to grant would serve two important purposes. First, such examination would greatly reduce third party uncertainty with claims defining the invention being available for third parties to assess whether such innovation patent constitutes an infringement risk. To assist in reducing uncertainty, limitations could be made preventing amendments to the claims following grant which broaden the scope of the claims, or to filing divisional applications more than a limited period after grant.

The second key benefit in conducting a limited form of examination prior to grant would be to protect the interests of individuals and SMEs who prepare and file their own innovation patent applications. Presently, self-prepared and filed innovation patent specifications are typically deficient in disclosure and cannot serve as the basis of enforceable patent claims, or for claiming Convention priority in any foreign application. The publication at grant, shortly after filing, of such deficient innovation patent specifications regularly prevents the applicant from ever gaining valid patent protection, where the level of disclosure is sufficient to defeat the novelty of the claims of any subsequently filed application. With the proposed limited examination prior to grant, however, deficiencies in disclosure and the like could be identified prior to publication during examination, such that there would not be a novelty defeating disclosure upon grant. The patent applicant would have the option of abandoning the deficient application without ever being published, and refiling an application with the necessary level of disclosure.

Whilst IPTA acknowledges that conducting a limited form of examination prior to grant would increase IP Australia's cost in pre-grant processing of innovation patent applications, IPTA expects that this could be largely covered with a moderate increase in the filing fee. Further, to reduce the potential inefficiency of a piece meal examination, examining for section 40 compliance prior to grant and for patentability during post-grant certification examination, patent applicants could be provided with an option of having full examination (including of patentability issues) conducted prior to grant, at the same time as the examination for section 40 compliance. This would result in concurrent grant and certification. An appropriate fee structure could be set whereby seeking both grant and certification at the time of filing would attract a lesser official fee than a combination of a filing fee and later post-grant examination fee. This would again have the effect of further reducing uncertainty, promoting earlier certification.

Whilst the alternate option suggested in the ACIP Options Paper of compulsory examination within three years of the date of grant may have some merit, it would not address the self-disclosure issue discussed above, and the desired increase in full examination of innovation patents might otherwise be achieved by restricting awards of damages or account of profits from certification, as discussed above.

#### **5.6.6 Change the Name of the Right**

Paragraph 5.6.6 of the ACIP Options Paper discusses the confusion that arises with use of the name "innovation patent" for innovation patents that have not been certified and are thus unenforceable. IPTA agrees that there is significant confusion in this regard, however this confusion is not limited to innovation patents. For example, the broader community regularly refer to provisional patent applications (which themselves never result in enforceable rights) as "provisional patents".

Whilst the confusion could be ameliorated to some degree with significant education, IPTA expects there will always be some confusion with the terminology currently employed. One option that may assist in addressing this confusion might be to refer to an innovation patent that has only reached the grant stage as an "innovation registration" or "innovation certificate", with the term "innovation patent" only being applied after certification. Alternatively, rather than having innovation patent applications proceed to grant without substantive examination, they could instead remain as pending applications (potentially through the entire 8 year term) unless and until they undergo voluntary certification examination.

Even if any of these changes were put in place, IPTA would still expect that there would be some confusion in the broader community.

#### **5.6.7 Education**

Paragraph 5.6.7 of the ACIP Options Paper indicates that a significant number of individuals and SMEs are generally ill-informed of the advantages and disadvantages of using the innovation patent system. IPTA agrees that many individuals and SMEs are not aware of the innovation patent system, or do not have a reasonable understanding of the system and its advantages and disadvantages.

IP Australia's strategic statement sets out one of its key aims as being to "enable Australian's to gain maximum value from the IP system by providing effective information and education services". IPTA thus recommends that IP Australia take the lead in significantly increasing the level of education in the Australian public about the patent system, and innovation patent system in particular. As noted in the ACIP Options Paper, the provision of information on IP Australia's website alone is insufficient.

#### **5.6.8 Exclusions**

Section 5.6.8 of the ACIP Options Paper considers broadening the list of exclusions of subject matter that may be protected by way of the innovation patent system.

IPTA does not support any broadening of the list of exclusions.

IPTA submits that any subject matter that satisfies the requirements of a manner of manufacture under section 18(1)(A) of the *Act* should be considered suitable subject matter for innovation patent protection. The present flexible manner of manufacture test is greatly preferred over potentially arbitrary lists of specific exclusions from available patentable subject matter, which IPTA expects would largely be driven by lobby groups such as generic pharmaceuticals groups and computer software industry, as is reflected in the ACIP Options Paper.

IPTA notes that ACIP considers methods and processes in particular could be excluded from the innovation patent system, on the basis that these sorts of subject matter are very difficult to reverse engineer. It is exactly for the reason that processes may, in many instances, be more difficult to reverse engineer than devices or mechanical hardware, that methods and processes should be able to be protected by innovation patents. If innovation patents are not available for methods and processes, there would be no incentive for those developing lower level methods and processes to disclose their innovations to the public by way of innovation patent so the public will not enjoy the benefit of such teaching.

Regarding the proposal to exclude chemical compositions and pharmaceuticals from the innovation patent system, the fact that comparatively few innovation patents are granted for pharmaceuticals and cosmetics (less than 1.5% of all innovation patents granted, according to the ACIP Issues Paper) assists in establishing that no significant mischief is being caused through protection of chemical compositions and pharmaceuticals using the innovation patent system. In fact, given their relatively short term, innovation patents are generally not suitable for protecting pharmaceuticals and chemical compositions, given the typically long time frames for obtaining therapeutic approval and commercialisation of pharmaceuticals in particular. Where there is no significant mischief being caused through limited use of the innovation patent system to protect pharmaceuticals and chemical compositions, IPTA sees no basis for excluding such inventions from the system. It is not clear on what basis ACIP has considered that innovations relating to chemical compositions and pharmaceuticals are "more appropriately protected under the standard patent system". Where a pharmaceutical or chemical composition that is of a lower inventive level than may be required for standard patent protection, so long as the innovative step test is satisfied, innovation patent protection should be available as it is for all other technologies.

IPTA has also noted reference to concerns raised by Alphapharm on the use of the innovation patent system for "evergreening" purposes. As noted in the IPTA Issues Paper Submission, there is no evidence that evergreening is occurring in Australia and in fact the suggestion that innovation patents can be used for "evergreening" purposes, providing a defacto patent term extension, is misconceived. Only subject matter that is new and innovative at the time of filing an application may be protected by such an innovation patent. An innovation patent application filed towards the end of the term of a standard patent cannot provide protection for compositions described in the original patent or otherwise publicly disclosed prior to filing the innovation patent application.

IPTA similarly sees no basis for excluding software from the list of patentable subject matter. Whilst the ACIP Options Paper states ACIP's belief that software patents require a comparatively low-level of financial contribution by an innovator, the same can be said for many forms of lower level invention that are suitable subject matter for an innovation patent. Even if software *per se* were to be excluded from the list of patentable subject matter, IPTA would expect that IP

professionals will be able to develop successful work arounds when drafting claims so as to avoid the specific exclusion, as is presently the case in various jurisdictions.

#### **5.6.9 Limit Access to the Innovation Patent System**

Section 5.6.9 of the ACIP Options Paper discusses the possibility of limiting access to the innovation patent system either to Australian applicants only, or, alternatively, to individual applicants and SMEs.

First, IPTA would not support any restriction of the innovation patent system to Australian applicants only, which IPTA believes would contravene provisions of the Paris Convention and would otherwise place the Australian patent system in an unfavourable light in the international IP community.

IPTA also does not support restricting the innovation patent system to be available to individual applicants and SMEs only. If, however, this approach were to be adopted then an appropriate model would be akin to the US or Canadian small entity provisions. In the US, reduced fees are applicable for qualifying small entities that are judged primarily on the basis of a limited number of employees of the applicant and affiliated entities or on the basis of being a not for profit organisation. Basing qualification on assessable income of the applicant and affiliated entities would, IPTA suspects, be significantly over complicating the matter. Care would also need to be taken as to what date is relevant for assessing whether an entity qualifies. Presumably the assessment would need to be made at the date of filing of the innovation patent application otherwise an entity that grows into a non-qualifying entity during its patent term would potentially lose its patent rights. Exchange rate issues would also further complicate the approach.

IPTA trusts that the above submissions will assist ACIP in its further contemplations and IPTA would welcome the opportunity to further discuss these submissions at an appropriate time. IPTA also again thanks ACIP for the opportunity to participate in this review.

Yours sincerely



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