

14 February 2017

Department of Industry, Innovation and Science
Industry House
10 Binara Street
CANBERRA
ACT 2600

By email only
IP.PCIquiry@industry.gov.au

Dear Sirs

Re: Submission in response to the Final Report issued by the Productivity Commission in connection with its review of Australia's intellectual property arrangements

Background

We refer to the Final Report issued by the Productivity Commission in connection with its review of intellectual property arrangements and to the Government's request for further comments on the final recommendations listed in the report, which are in addition to or different to those contained in the Commission's draft report. We make the following submissions in response to the issues identified in that Report.

About IPTA

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) is a voluntary organization representing registered patent attorneys, registered trade marks attorneys and student members in the process of qualifying for registration as a patent or trade marks attorney 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 as well as patent attorneys working in industry, universities, research institutes and others that practice as barristers. IPTA members represent large local and foreign corporations, SMEs, universities, research institutes and individual inventors.

IPTA members not only work with local clients to assist them in developing strategies for protecting and enforcing their intellectual property rights in Australia and overseas, but they also represent overseas individuals and companies in their efforts to obtain and enforce their intellectual property rights in Australia.

The Report

The attached Appendix sets out IPTA's detailed response to the final report. IPTA also relies on its previous detailed submissions made in response to the issues paper and in response to the subsequent draft report. We have set out below a brief summary of IPTA's views on the recommendations made in the final Inquiry report.

IPTA is very disappointed with the Report which is anti-IP, and anti-patent in particular, and makes a number of patent unfriendly recommendations, including abolishing the innovation patent, introducing an objects clause into the Patents Act, virtually removing the availability of extensions of term for pharmaceutical patents and raising the inventive step threshold above that of Australia's major trading partners.

It is clear from the Report that the tools available to economists for analyzing intellectual property systems and which have been relied on in the production of the Report, and in some of the papers considered by the Productivity Commission for the Report, are not yet at a stage where they yield reliable results. In many cases the proxies used to represent parameters which could not be measured were entirely inappropriate. As a result, the Commission missed the very real weakness of knowledge transfer in Australia, a point made starkly in the recent *Performance Review of the Australian Innovation, Science and Research System 2016* ("*Innovation Performance Review*"- part of the NISA initiative). This study, based on firmer methodology, actually found Australian PCT filings – for example – are well below the OECD average. Australia placed 27 out of 37. The Commission's recommendations, if followed by government, will make this knowledge transfer problem worse.

IPTA understands that, at least in part, the Productivity Commission's views on IP is based on the Commission's chosen "overarching objectives" and in particular that, according to the Productivity Commission, in order to be "effective", IP arrangements must "foster creative endeavour and investment in IP that would not otherwise occur" and "only provide the incentive needed to induce that additional investment or endeavour". This very impractical and academic concept of additional IP is discussed more detail in the innovation patent section of IPTA's response to the Report, but if applied across the range of IP might result in the denial of copyright for works by painters and sculptors and the denial of copyright in academic publications, or in any areas where the work is not created where no incentive is needed to create the IP.

IPTA is particularly disappointed with the Productivity Commission's recommendation to abolish the Innovation Patent System, particularly as the main users of the system are the very SME's that are acknowledged to be the main source of new jobs and growth in the Australian economy, and which largely support the Government's jobs and growth agenda. IPTA is unconvinced by the rationale for the Report's chapter on the IPS which appears to be written in the form of a closed justification for abolition of the IPS rather than an open consideration of all the options for reform of the IPS.

It is somewhat ironic that the recommendations of the Report appear to be in conflict with the Coalition Government's Innovation Agenda which prompted Malcolm Turnbull to say in support of innovation "we've got to be prepared to have a go and be more prepared to embrace risk and experimentation".

There would be a definite irony if the Government that launched and promoted the "Innovation Agenda" abolished the Innovation Patent System which in part supports and encourages the innovation promoted by that agenda.

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IPTA believes that Australian innovation policy, including the patent system, should provide an incentive to innovate and compensate innovators for the risks and investment necessary to bring innovations to the market. Australia's current innovation policy should not be weakened based on the academic views of economists who do not have proximity to innovation nor expertise in the commercialization of innovation.

Yours faithfully

FB Rice

A handwritten signature in blue ink, appearing to read 'J. Dobbin', with a stylized flourish at the end.

Jeremy Dobbin

President

The Institute of Patent & Trade Mark Attorneys of Australia

cc: Linda Tocchet, The Institute of Patent and Trade Mark Attorneys of Australia
by email linda@ipta.org.au

IPTA Response to Chapter 7:

The Patent System — Getting The Fundamentals Right

1. Summary

RECOMMENDATION 7.1

The Australian Government should incorporate an objects clause into the *Patents Act 1990* (Cth). The objects clause should describe the purpose of the legislation as enhancing the wellbeing of Australians by promoting technological innovation and the transfer and dissemination of technology. In so doing, the patent system should balance over time the interests of producers, owners and users of technology.

- IPTA maintains its objection to the objects clause, notwithstanding the amended wording to that clause. The objects clause will create confusion and scope for dispute. (see Section 5). The Commission has missed better opportunities for reform that would genuinely assist in mitigating any frustration of follow-on innovation (see Section 7).

FINDING 7.1

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

- IPTA disagrees that the Commission has made a strong case for any change to the inventive step threshold (see Section 2).
- The information presented by the Commission on the social value of Australian Patents overwhelmingly relates to patents granted before the changes to the *Patents Act 1990* (Cth) (**Patents Act**) introduced by the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (**RTB Act**) (see Section 2.2).
- The proxies utilised by the Commission are arguably directed to private value and the Commission does not have a consistent view on whether private value and social value are aligned (see Section 2.3).
- To the extent that the proxy measures of the Commission can be relied upon at all, they indicate that even before the introduction of the RTB Act, Australian patents have a similar distribution of value to those granted in Europe and the United States (see Section 2.4).
- The Commission has not made a strong case for Australia adopting more stringent patentability requirements than Europe or the United States (see Section 2.4).

- The Commission has provided no evidence on whether or not the requirements introduced by the RTB Act improve the targeting of additional innovations (see Section 2.5).

RECOMMENDATION 7.2

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

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

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

- The Commission's proposal to amend the *Patents Act* is based on the assertion that Europe has a higher inventive step threshold. However, the information presented in the Inquiry Report does not support this assessment (see Sections 2.4, 3.1, 3.2 and 3.3).
- The Commission's own analysis of patent value indicates that Europe grants patents of similar value to Australia, thus it is unclear how adopting the European test for inventive step would have any impact on Australian patent value (see Section 2.4). Further, it is questionable whether adopting the European approach to the assessment of inventive step will necessarily have the desired effect on the threshold of inventive step in Australia (see Sections 2.4, 3.10 and 3.11).
- The Commission has ascribed any differences in grant rates between IP Australia and the EPO to differences in the threshold for inventive step, but it has not provided any evidence for this attribution. Furthermore, the Commission has made contradictory statements as to whether the RTB Act reforms will over time bring the grant rate into greater alignment with Europe (see Sections 3.2 and 3.3).
- The criticism of the "scintilla of invention concept" by the Commission is misplaced (see Section 3.7).
- The Commission is wrongly characterising the obviousness test as a predominantly quantitative one rather than a qualitative test (see Section 3.7).
- It is unclear how the Commission's proposed "obvious to try" test would materially differ from the "directly led as a matter of course" test (see Section 3.6).

- The proposed additions to the Explanatory Memorandum arguably remove flexibility in the assessment of inventive step which is detrimental (see Sections 3.9 and 3.11).
- It is misplaced to attempt to use the objective assessment of whether or not an invention has an inventive step to target socially valuable inventions. The true social value of the patent can only be assessed in hindsight and its value will depend, not only on the nature of the invention, but on how that invention is used by the patentee and the impact it has on the public. It is unreasonable to expect Examiners to foresee the future when assessing the patentability of an invention (see Sections 3.15 and 3.16).
- The Commission has not consider the impact of changes made to claim support and disclosure requirements, in particular how these requirements affect the breadth of claims granted in Australia (see Section 3.13).
- It is unnecessary to direct Examiners to consider the technical features of an invention, as there is no evidence to suggest that Examiners are failing to do so at present (see Section 4).

RECOMMENDATION 7.3

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

- It is unnecessary to separately require applicants to identify the technical features of the claimed invention as the claims must already:
 - define the invention;¹
 - be clear and succinct and supported by matter disclosed in the specification;²
 - not rely on references to descriptions or drawings unless absolutely necessary to define the invention;³ and
 - relate to one invention only⁴ (See Section 4).

¹ Section 40(2)(b) and (c).

² Section 40(3).

³ Section 40(3A).

⁴ Section 40(4).

RECOMMENDATION 7.4

The Australian Government and IP Australia should set patent fees to promote broader intellectual property policy objectives, rather than the current primary objective of achieving cost recovery. To this end, the Australian Government, with input from IP Australia, should:

- restructure patent renewal fees such that they rise each year at an increasing rate (including years in which patents receive an extension of term) — fees later in the life of a patent would well exceed current levels
- reduce the initial threshold for claim fees, and increase claim fees for applications with a large number of claims.

- IPTA disagrees with the underlying negative premise of the recommendation to increase patent renewal fees (see Section 6).
- The proposal concerning claim fees is based upon a misunderstanding that a greater number of claims correspond to a broader patent scope. Thus, the rationale for increasing claim fees is flawed (see Section 6).

2. **The Commission's Evidence is Unsuitable for Assessing Patents Granted Under the Current Act**

IPTA submits, for the reasons provided below, that the information relied upon by the Commission does not support Finding 7.1, nor does the information support any of Recommendations 7.1 – 7.4.

The Commission considers the current patent system to be poorly targeted and failing the public by allowing too many low-value patents to be granted.⁵ However, IPTA considers this view to be based upon an assessment of patents granted under Australia's "pre-RTB Act" patent law. Thus, the Commission has not evaluated the current patent system and is not in a position to reliably comment on the efficacy of the current patent system.

2.1. **Assessing the Value of Patents**

In the Inquiry Report, it is acknowledged that *"there are no 'bright lines' when it comes to identifying whether an innovation provides sufficient social value to justify patent protection"*. Nevertheless, during the course of the public hearings, Commissioner Chester referred to Australia having a *"large rump"*⁶ or *"large fat tail"*⁷ of low-quality patents. Commissioner Chester noted the Commission *"went to some lengths to try to get some*

⁵ Productivity Commission, *Intellectual Property Arrangements, Inquiry Report*. ("Inquiry Report") p. 201-208.

⁶ *Transcript of Proceedings, Productivity Commission, Inquiry Into Intellectual Property Arrangements*: line 35, p. 649; line 13, p. 668; line 14, p. 676; line 33, p. 765.

⁷ *Transcript of Proceedings, Productivity Commission, Inquiry Into Intellectual Property Arrangements*: line 22, p. 169.

measure of the quality of Australian patents that are being issued today and we had access to a new data base from IP Australia and we did some proxy measures...".⁸

These proxy measures are described in Appendix D, Box D1 of the Inquiry Report, and are:

1. **Forward citations.** More forward citations are considered by the Commission to indicate a higher social value.
2. **Citations to non-patent literature.** It has been suggested that patents citing non-patent literature may contain more complex and fundamental knowledge and be higher value than patents that do not cite such literature. Accordingly, more non-patent literature citations are considered to be indicative of higher social value.
3. **Generality index.** This index is based on the number and distribution of forward citations and the technology classes of these citations. This index is intended to identify general purpose technologies, with more general technologies (i.e. those with a higher generality index value) considered to have higher social value.
4. **Radicalness index.** This index is measured based on backwards citations and is measured as a time invariant count of the number of International Patent Classification (IPC) technology classes in which the patents cited by the given patent are classified, but in which the patent itself is not classified. The higher the value of the radicalness index, the higher the social value.
5. **Patent scope.** Typically, when patent scope is discussed it relates to claim scope (i.e. the scope of patent protection afforded by the patent). However, in this case the number of distinct technology classes a patent cites is treated as a proxy for patent scope. The greater the patent scope, the higher the social value.
6. **Patent family size.** The greater the patent family size the higher the social value.
7. **Years a patent is in force.** The higher the number of years a patent is in force, the higher the social value.
8. **Patent value index.** A composite indicator based on forward citations, generality index, radicalness index, citations to non-patent literature and patent family size. The higher the value of the patent value index, the higher the social value.⁹

The Commission has concluded that *"Collectively, [the proxies] suggest a significant percentage of Australian patents are of relatively low value (figure 7.1)."* However, IPTA submits that the proxies do not provide clear guidance on patents granted under the current legislation.

2.2. Timing is everything

It is important to consider the data used for these proxy measures, particularly in the light of changes to the Patents Act introduced by the RTB Act. The RTB Act introduced

⁸ Transcript of Proceedings, Productivity Commission, Inquiry Into Intellectual Property Arrangements: lines 19-22, p. 169.

⁹ Source: based on Productivity Commission data, Intellectual Property Arrangements, Inquiry Report p 633.

more stringent patentability requirements that are applicable to standard patent applications (and subsequently granted patents) for which a request for examination was made on or after 15 April 2013.

The Commission has based the “forward citations” measurement and “generality index” on patents granted in Australia between 2005 and 2010.¹⁰ “Years patent in force” is based on patents granted in Australia between 1995 and 2005.¹¹ Accordingly, none of the data for these measures is illustrative of patents granted under Australia’s “post-RTB Act” patent law.

The remaining measures are based on patents granted in Australia between 2005 and 2015.¹² All patents granted in 2012 and earlier were granted under Australia’s “pre-RTB Act” patent law. Of the patents granted in 2013, 2014 and 2015, data sourced from Intellectual Property Government Open Data (IPGOD) indicates that examination was requested on or after 15 April 2013 for less than 12% of those patents. Furthermore, post-RTB Act patents make up less than 3% of the total patents granted between 2005 and 2015. Thus, the vast majority of the data relied upon by the Commission relates to “pre-RTB Act” patents.

Table 1 summarises the proxies that do and do not include any information on “post-RTB Act” patents.

Table 1

Proxy	Does it include data on “post-RTB Act” patents?
Forward citations	No
Citations to non-patent literature	Very Limited
Generality index	No
Radicalness index	Very Limited
Patent scope	Very Limited
Patent family size	Very Limited
Years a patent is in force	No
Patent value index	Very Limited

Figure 1 below shows the number of Australian “pre-RTB Act” and “post-RTB Act” patents granted between 1995 and 2015.

¹⁰ *Inquiry Report* p. 634.

¹¹ *Inquiry Report* p. 634.

¹² *Inquiry Report* p. 634.

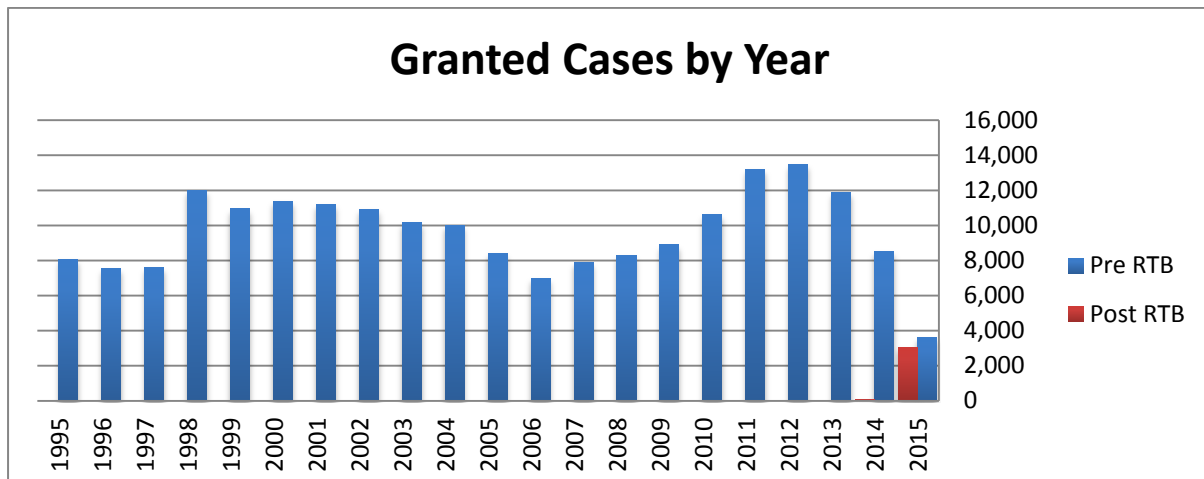


Figure 1

With this in mind, the “large rump”¹³ of low-quality patents identified by the Commission, if it indeed does exist, may provide some justification for the RTB Act changes. The Commission’s analysis does not, however, appear to justify any of the further changes proposed.

2.3. Do the Proxies Correspond to Social Value?

The extent to which the Commission’s proxies can be considered indicative of social value is unclear. The Inquiry Report states that “the [patent] system remains tipped in favour of rights holders and against the interests of the broader community”,¹⁴ indicating that private value and social value are opposed. Yet, proxies adopted by the Commission rely on the premise that “the revenue generated from a patented invention should be commensurate with the invention’s technological contribution to society, and therefore that the private and social value of patented inventions are closely related”.¹⁵

It has been observed that both “Patent family size” and “Years patent in force” are indicators of private value, as they relate to the decisions of the patentees or patent applicants.¹⁶

“Forward citations”, “generality index”, “radicalness index” and “patent scope” rely on how a patent is cited, classified or searched by a patent office, rather than the impact of an invention on society generally.

To a certain extent, “citations to non-patent literature” also relies on the search practices of patent offices. Furthermore, this proxy was identified as predictive of private value as stated by patent holders and based on profit flow data. Thus, this is an indicator of private value, which in the Commission’s view may or may not indicate social value.

¹³ Transcript of Proceedings, Productivity Commission, Inquiry Into Intellectual Property Arrangements: line 35, p. 649; line 13, p. 668; line 14, p. 676; line 33, p. 765.

¹⁴ Inquiry Report p. 13.

¹⁵ Inquiry Report p. 632.

¹⁶ Submission No. DR286 to the Productivity Commission on the Draft Report on Intellectual Property Arrangements, Chris Dent, received 2 June 2016, p. 9.

Similarly, the “radicalness index” proxy was developed in order to assess whether technological innovation does impact financial performance of companies and, as such, is an indicator of private value.¹⁷ In particular, Sabine states that “[t]he purpose of this paper is to find better measurement of the **private value** of innovation inside European companies”¹⁸ (emphasis added).

Furthermore, both “forward citations” and “generality index” assess the social value based on the degree to which a patent is cited against other patent cases. Later patent applications directed to similar subject matter might be indicative of the contribution that the invention makes to developing additional technology. However, these measures discount inventions where additional developments may be limited because, for example, it is difficult to make further advances in the specific field to which the invention relates.

Instead, the Commission has assigned patents with no forward citations a generality index of zero for the purposes of the quality index.

“Patent scope” and “generality index” rely on the questionable assumption that an invention that relates to a number of technology classes is more socially valuable than an invention that relates to a specific technology area. In addition, the design of the “patent scope” proxy is based on an assumption that the number of distinct technology classes a patent cites reflects the scope of the patent claims. However, it is clear that no verification testing of this assumption was conducted because assessing actual claim scope was considered too onerous.¹⁹

2.4. **Proxy Measures Suggest Australia Meets Patent Quality Standards of United States and Europe**

Even if the issues of timing and questions about the reliability of the proxies were put aside, the evidence put forward by the Commission does not support changing Australia’s legislation.

The Commission has asserted that “Australia still has a lower threshold for inventive step compared to Europe”.²⁰ In view of this alleged discrepancy, the Commission proposes changes to Australian legislation to “align the obviousness test with the approach in Europe”.²¹ However, the data presented by the Commission does not indicate that Europe or the United States has a significantly greater likelihood to grant “higher value” patents than Australia.

¹⁷ Sabine, R. 2015, *The market value of technological innovation: evidence from European patents*, University of Paris Dauphine p. 5.

¹⁸ Sabine, R. 2015, *The market value of technological innovation: evidence from European patents*, University of Paris Dauphine p. 3.

¹⁹ Lerner, J. (1994), “The Importance of Patent Scope: An Empirical Analysis”, *RAND Journal of Economics*, 25(2): 319-333 at p. 320.

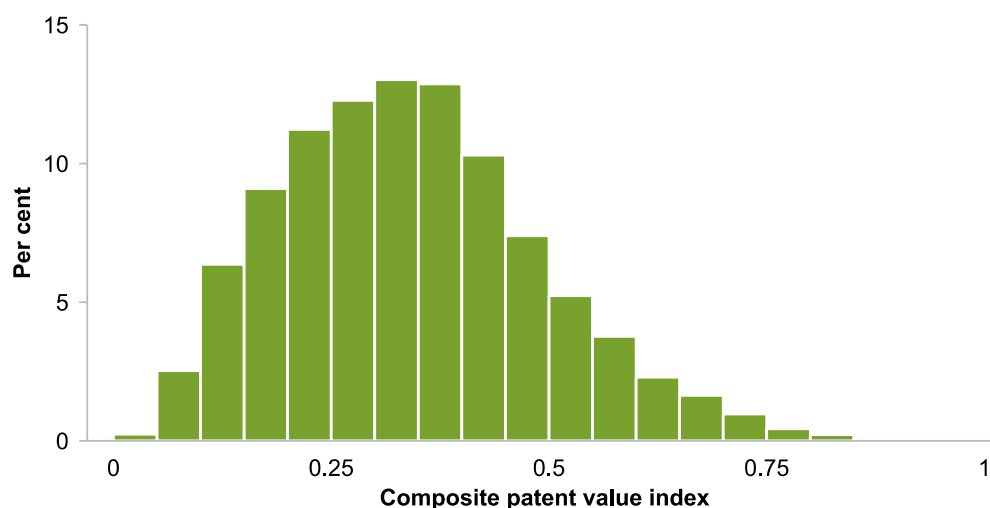
²⁰ *Inquiry Report* p. 222.

²¹ *Inquiry Report* p. 226.

Figure 7.1 is purported to show the trend of low value Australian patents. For ease of reference Figure 7.1 is reproduced below:

Figure 7.1 The bulk of Australian patents are of relatively low value^a

Distribution of composite patent value index

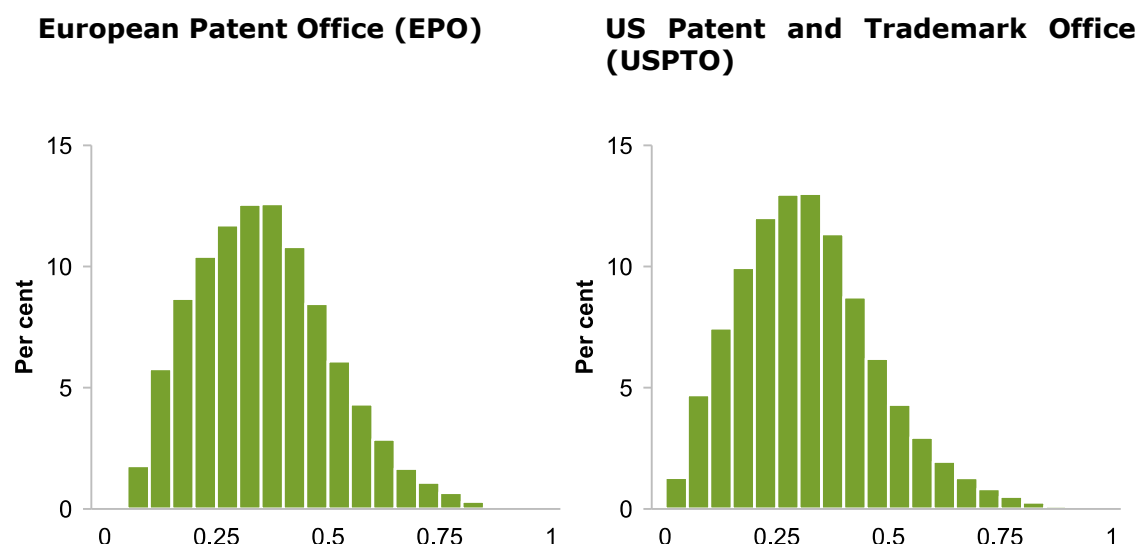


^a The index accounts for the following proxies for patent value: forward citations, a 'generality' index, a 'radicalness' index, citations to non-patent literature and patent family size. These measures are defined and reported separately to the composite index in appendix D. The higher the value of the index the higher the social value.

Source: IPGOD (2016 edition).

The Inquiry Report also notes that proxies for the social value of innovations for the United States and Europe indicate that a significant share of patents in these jurisdictions are of relatively low value and these values are illustrated in Figure 7.2 (reproduced below).

Figure 7.2 Europe and the United States also have a problem with low-value patents^{a,b}



Composite patent value index

^a The index accounts for the following proxies for patent value: forward citations, a 'generality' index, a 'radicalness' index, citations to non-patent literature and patent family size. The higher the value of the index the higher the social value. These measures are defined in appendix D. ^b The EPO and USPTO patent value indexes include granted patents filed between 2000 and 2005. Data on the quality of USPTO patents is sourced from the OECD Patent Quality Database. The EPO patent value index is calculated by matching EPO patents to USPTO patents by PCT number and using OECD data on the quality of the corresponding USPTO patents. This approach is necessitated by the EPO and USPTO having different processes for calculating forward citations.

Source: OECD Patent Quality Database (2016a).

When the results for Europe and the United States are laid over the results for Australia it is clear that the trends across all three are very similar (see Figure 2).

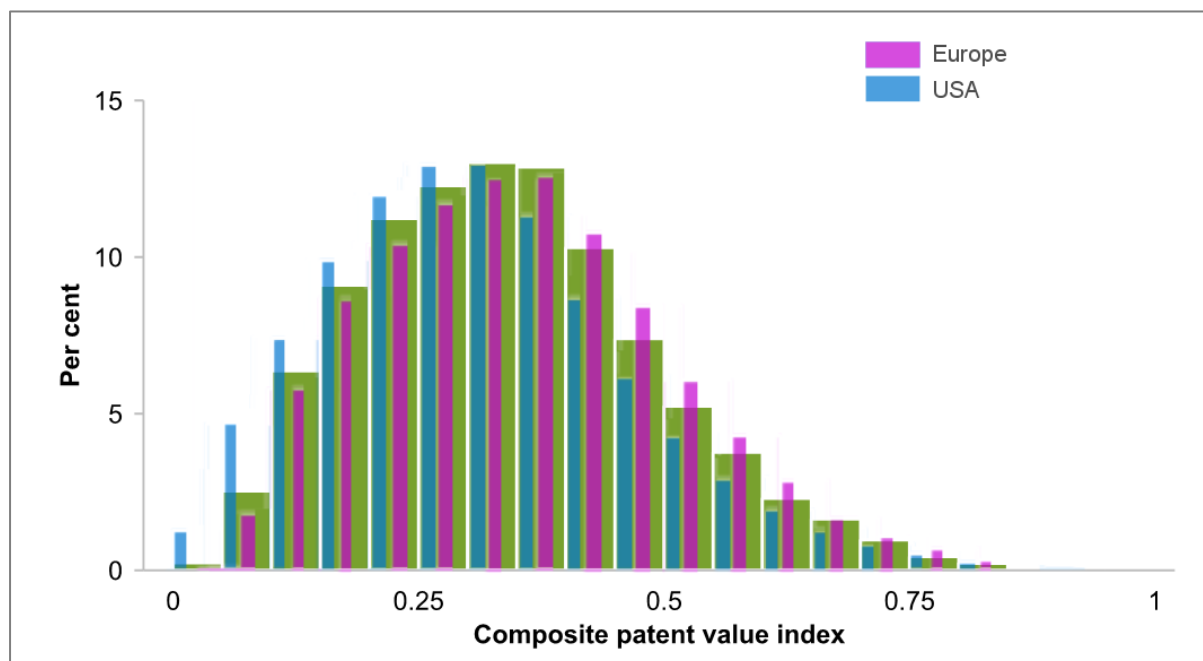


Figure 2

2.5. Evidence of Additionality

The Commission has acknowledged that it “*is impossible to directly incorporate an additionality test in the Patents Act*”²² and that a “*specific test for additionality would be unworkable*”.²³ Nonetheless, the Commission has indicated that “*survey evidence shows patents are often not important for promoting innovation*”. However, the only survey evidence for Australia relates to pre-RTB Act patents.²⁴

The Commission also states that “[t]his evidence is supported by the results from empirical models of the relationship between patenting and R&D (a proxy for innovation).”²⁵ However, the more detailed discussion of the economic modelling in Appendix D of the report is not as clear, noting that “[e]stimating the causal relationship between patenting and innovation is challenging”²⁶ and “*some studies conclude that patents do little to promote innovation in general, others find a positive and significant effect.*”

Overall, the Commission has not provided clear evidence of the affect of “post-RTB Act” patents upon additionality.

²² Inquiry Report p. 204.

²³ Inquiry Report p. 216.

²⁴ Jensen, P and Webster, E ‘Knowledge management: does capture impede creation?’, *Industrial and Corporate Change*, vol. 18, no. 4, p. 701–727.

²⁵ Inquiry Report p. 204.

²⁶ Inquiry Report p. 637.

3. Proposed Changes to Inventive Step Mistimed and Mistakenly Conceived

3.1. **There is not a good case for modifying the Patents Act in view of Europe**

The Commission has recommended that “[t]o raise the [inventive step] threshold, the Patents Act should be amended by borrowing from the simpler European wording...”.²⁷ In suggesting this approach, the Commission has claimed that “[t]here are good reasons for looking to the approach in Europe, with numerous studies showing the EPO is more effective at filtering out low-value patents than patent offices in other large markets for technology.”²⁸ However, the Commission’s own assessment of patent value indicates that Europe nevertheless “show that the bulk of patents in the United States and Europe have a low value.”²⁹ Accordingly, based on the information put forward by the Commission it is unclear whether the European test for inventive step has any impact on the number of “low value” patents. Thus, it is unclear whether there is any benefit to modifying the Patents Act as proposed in Recommendation 7.2.

3.2. **The Commission is Unclear about the Impact of the RTB Changes**

The Commission notes that the RTB Act reforms have narrowed the difference between the grant rate of IP Australia and the European Patent Office (EPO). However, the Inquiry Report includes contradictory statements about whether this trend will continue. On the one hand the Report states: “Grant rates are higher post Raising the Bar because insufficient time has passed for some of the more difficult applications to be resolved. As more time passes, the grant rates will decline”.³⁰ That is, the IP Australia grant rate is expected to decline bringing it into closer alignment with the grant rate of Europe. However, on the same page, the Inquiry Report states:

*While post Raising the Bar applications that clearly meet the criteria are resolved quickly and thus have likely been granted in both offices, there has unlikely been enough time for more ‘line ball’ applications to be resolved in both offices. To the extent Australia is still more likely to accept such applications compared to Europe the post Raising the Bar **grant rate differential is expected to increase over time.***³¹ (emphasis added)

Thus, the Commission appears undecided as to whether the RTB Act reforms will bring the Australian patent grant rate into line with that of Europe. Until there is clarity about the effect of the current post-RTB Act legislation, there appears to be no justification for making further changes that will potentially lead to Australia being out of step with any country with which it conducts substantial technology trade.

²⁷ Inquiry Report p. 638.

²⁸ Inquiry Report p. 221.

²⁹ Inquiry Report p. 222.

³⁰ Inquiry Report p. 221.

³¹ Inquiry Report p. 221.

3.3. Source of the Gap Between IP Australia and the EPO

The Commission states that "*Australia still has a materially greater propensity to grant patents when the EPO does not (table 7.4)*". Table 7.4 is reproduced below.

Table 7.4 A closer look at application outcomes suggests further reform is needed
Applications that received a first report and were deemed resolved by both IP Australia and the EPO, and where there is a different outcome across the offices

<i>Application outcome</i>	<i>Pre Raising the Bar^a</i> per cent	<i>Post Raising the Bar</i> per cent
IP Australia grants, but EPO does not	67	65
EPO grants, but IP Australia does not	33	35

^a Applications where an examination was requested between 15 April 2011 and 30 December 2012.

The Commission concludes that raising the inventive step threshold would reduce or close the gap between granting rates.³² However, key information is missing from Table 7.4 and the information to hand does not necessarily support the Commission's conclusion.

First, the table does not identify the number of cases where both IP Australia and the EPO elect not to grant an application. Also, the table does not represent the number of cases where there is agreement between IP Australia and the EPO as a percentage relative to the number of cases where there is a different outcome between the Offices. Thus, Table 7.4 does not show that the discrepancy in outcome occurs in a significant number of cases.

Furthermore, it is to be expected that there will always be some level of discrepancy between IP Australia and the EPO. The ideal position for cases that are considered "line ball" is that neither IP Australia, nor the EPO, show a greater propensity to grant an application. That is, in an ideal world the percentage would be 50/50. Thus, based upon the figures in Table 7.4, the post-RTB Act percentages are only 15% off the ideal position.

Finally, there has been no analysis of the reasons why EPO cases were not granted in circumstances where IP Australia elected to grant the corresponding case. Without any analysis of the underlying reasons it is not possible to conclude whether the discrepancy is due to any purported differences in the inventive step threshold, or due to some other aspect of European Law in comparison to Australian Law. The Commission is also unable to exclude the possibility that the discrepancy between IP Australia and the EPO is due to examination practice. That is, the Commission has not excluded the possibility that IP Australia's approach to applying the law is too relaxed, or that the EPO's approach is in fact more strict. It may be that IP Australia's practice is still more relaxed as Examiners are still adapting from the less onerous pre-RTB Act provisions to the current post-RTB Act provisions.

³² *Inquiry Report p. 228 and Appendix H.*

3.4. The Commission is Unclear about where the level should be set

The Inquiry Report also refers to there being “a strong case for setting the threshold **above** the benchmarks set by other countries”³³ (original emphasis), but goes on to state that “significantly raising the threshold above the level applied in other countries would, however, entail risks”³⁴ and “[s]uch reforms could increase transaction costs for international patent applicants in Australia, since it would apply an inventive step substantially different to that applied elsewhere.”³⁵

As noted above in Section 2, the Commission has not presented any information indicating that the social value of patents granted under the Patents Act post-RTB Act is too low. Nor has it presented any information establishing that post-RTB Act patents are not contributing to additional innovation. In the absence of any information on social value and additionality, there is no case for amending the threshold of inventive step. Instead, we are left with the risks associated with an unnecessary increase of the threshold.

Without any robust assessment of the value of patents granted under the post-RTB Patents Act, the Commission has no basis for asserting that “[d]elaying further reform until Raising the Bar changes fully play out is both unnecessary and costly.”³⁶ Instead, further reform without a full appreciation of the effect of the RTB Act amendments carries with it the risk that local investment in innovation will be stymied by an unreasonably high threshold and innovators from elsewhere will be dissuaded from investing in the Australian economy. Furthermore, ongoing uncertainty about Australia's patent system contributes to business uncertainty and this business uncertainty will in turn have a flow-on impact upon Australia's economy. This is discussed further below at Section 3.16.

3.5. What do we mean by “obvious”?

At Recommendation 7.2, the Commission recommends that ss 7(2) and 7(3) of the Patents Act be amended to adopt wording that this modelled on European provisions. At present, in Australia, an invention is taken to have an inventive step “*unless the invention would have been obvious*”³⁷, whereas in Europe an invention is considered to have involved an inventive step if “*it is not obvious*”³⁸.

Obvious should be given its dictionary meaning, that is “*very plain*”.³⁹ It is also worth considering what obvious means relative to inventiveness. Obviousness and inventive step are two sides of the same coin, as noted in *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd* [2007] HCA 21 at [52]:

*Further, as recognised in Beecham Group Ltd's (Amoxycillin) Application, as a basic premise, **obviousness and inventiveness are antitheses** and the*

³³ Inquiry Report p. 225.

³⁴ Inquiry Report p. 16.

³⁵ Inquiry Report p. 228.

³⁶ Inquiry Report p. 222.

³⁷ s7(2) Patents Act 1990 (Cth).

³⁸ Article 56 European Patent Convention.

³⁹ *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd* [2007] HCA 21 at [51] citing *Aktiebolaget Hässle v Alphapharm Pty Ltd* [2002] HCA 59 (“Alphapharm”) at [34] per Gleeson CJ, Gaudron, Gummow and Hayne JJ, [85] per McHugh J, [144] per Kirby J, [190] per Callinan J.

question is always "is the step taken over the prior art an 'obvious step' or 'an inventive step'"? An inventive step is often an issue "borne out by the evidence of the experts". There is no distinction between obviousness and a lack of inventive step. (emphasis added)

In the Draft Report the Commission indicated that Australia's approach reverses the onus of proof as the test deems an invention to involve an inventive step unless it would be obvious, rather than requiring the applicant to prove sufficient inventiveness. However, that suggestion has now been abandoned.

The Commission now considers Australia's definition of inventive step more complex than that of other jurisdictions, in part because it divides background information into common general knowledge and prior art information.⁴⁰ The Commission asserts that:

While other patent offices, such as the EPO, have equally complex provisions in their examiners manuals, Australia appears to be alone in enshrining such complexity in its legislation, making it more difficult to adapt the application of its law as knowledge, technologies and markets evolve.

However, the Commission's assertion first ignores the reference in EPC Article 56 to EPC Article 54, which arguably makes the European provisions as complex as Australia's. Furthermore, the Commission has provided no evidence to support the assertion that Australia's current legislation is less adaptable than the wording proposed by the Commission. Indeed, as discussed below, by seeking to limit the tests to be applied in Australia, the Commission's proposal is arguably reducing the flexibility and adaptability of Australia's inventive step provisions.

3.6. The proposed obviousness test

The Commission also recommends in Recommendation 7.2 that the Explanatory Memorandum accompanying the proposed amendment state:

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

The Productivity Commission intends for its proposed test for inventive step to be applied differently to one of the current tests which asks "*would the person skilled in the art (in all the circumstances) **directly be led as a matter of course** to try the claimed invention in the expectation that it might well produce a solution to the problem*"⁴¹, with an answer in the affirmative rendering the invention obvious. The Commission proposes instead to ask whether "*a course of action required to arrive at the invention or solution to the problem would have been **obvious** for a person skilled in the art to try with a reasonable expectation of success*".⁴² Both the current and proposed tests are qualified by the requirement that there is a reasonable expectation of success (i.e. a solution solving the problem).

⁴⁰ Inquiry Report p. 224-225.

⁴¹ Australian Patent Office Manual of Practice and Procedure, Section 2.5.3.3.5.

⁴² Inquiry Report, page 223, Footnote 19 and Productivity Commission, Intellectual Property Arrangements, Draft Report ("Draft Report"), Draft Recommendation 6.1.

The Commission points to the 'directly led as a matter of course' qualifier as setting a low quantum of advance, thus making it difficult to establish a lack of inventive step in Australia.⁴³ Accordingly, the Commission seeks to increase the quantum of advance by replacing "*directly led as a matter of course*" with "*obvious*".

The current test with the 'directly led as a matter of course' qualifier is the reformulated 'Cripps question' posed by Graham J in *Olin Mathieson Chemical Corp v Biorex Laboratories Ltd* [1970] RPC 157. The comments of Graham J on reformulating the 'Cripps question' provide some guidance on the significance of changing from "*directly led as a matter of course*" to "*obvious*".

Graham J notes the original 'Cripps question' begins with "*Was it...obvious...*". In explaining the decision to not use the term "*obvious*" in the reformulated question, Graham J states at 188:

In this case, in my judgment, provided one is quite clear as to the sense of the word "obvious", one arrives at the same result whether the appropriate question is put in the Cripps form or in the form which I have formulated. I prefer the latter because it incorporates in effect a definition of "obvious" ... The word "obvious", as Sir Lionel agreed, and as its derivation implies, means something which lies in the way, and in the context of the Act is used in its normal sense of something which is plain or open to the eye or mind, something which is perfectly evident to the person thinking on the subject.

In the question here I have tried to incorporate this meaning by using the words "led directly as a matter of course to try".

If "*led directly as a matter of course to try*" means "*obvious*", one must ask: what is the effect of making the change the Commission proposes? It would seem that the Commission's proposed change would make no material change to the quantum of advance.

3.7. The misunderstood scintilla

The Commission has disapprovingly referred to the current state of Australian Law as requiring only "*a scintilla of invention*" in order to pass the obviousness test. In the Draft Report the Commission expressed the view that its recommended changes "*would shift the focus of the test away from the **quantitative 'scintilla of invention' concept toward more qualitative considerations** and thus better quality patents*" (emphasis added).⁴⁴ In the Inquiry Report it has stated that "*a scintilla does not describe the **amount** by which a pole vaulter must clear the bar. Rather, a scintilla **sets** the bar — and does so at a level that even pole vaulters of questionable ability can clear*" (original emphasis). However, the Commission's repeated references to a quantitative scintilla indicates that it has misunderstood the principle of "*a scintilla of invention*". This principle is intended to convey that the test for obviousness is largely a qualitative consideration, not one that is quantitative.

It may be helpful to look back at an early reference to the "scintilla". In *Samuel Parkes & Co. Ltd. v. Cocker Brothers Ltd.* (1929) 46 RPC. 241 at 248 it is noted:

⁴³ *Inquiry Report*, p 222-223, *Draft Report* p.182-3.

⁴⁴ *Draft Report* p.185.

*The Plaintiffs' counsel...urge me not to be misled by the simplicity of the invention into holding that there is no [inventive] subject-matter; while the Defendants...have warned me against attributing an inventive quality to what is a mere workshop improvement. Nobody, however, has told me, and I do not suppose anybody ever will tell me, what is the precise characteristic or quality the presence of which distinguishes invention from a workshop improvement. Day is day, and night is night, but who shall tell where day ends or night begins?...The truth is that, when once it had been found, as I find here, that the problem had waited solution for many years, and that the device is in fact novel and superior to what had gone before, and has been widely used, and used in preference to alternative devices, **it is, I think, practically impossible to say that there is not present that scintilla of invention necessary to support the Patent.*** (emphasis added)

Indeed, WIPO's Standing Committee on the Law of Patents has generally observed that it may be misleading to talk about the level of inventive step, as the question as to whether an invention involves an inventive step (or is non-obvious) is not quantitative. Instead, it is a wholly objective qualitative test where we are concerned with the presence or lack of inventive step, rather than the level of inventiveness.⁴⁵

The qualitative nature of the test for inventive step is further noted in *AstraZeneca AB v Apotex Pty Ltd*; *AstraZeneca AB v Watson Pharma Pty Ltd*; *AstraZeneca AB v Ascent Pharma Pty Ltd* [2015] HCA 30 at [12]:

*In Lockwood Security Products Pty Ltd v Doric Products Pty Ltd [No 2] ⁴⁶this Court adverted to the historical development of want of inventive step at common law and the statutory ground, referring to obviousness, first created in the United Kingdom by the Patents and Designs Act 1932 (UK) ("the 1932 UK Act"), which the Court described as: "a different formulation of the old ground of 'want of subject matter' with the test becoming an **overtly qualitative test** rather than a **quantitative** one."⁴⁷ (emphasis added)*

3.8. Do the criticisms cited by the Commission apply to the current law?

As part of criticising the "scintilla standard" the Commission has referred to criticism of the Australian standard of obviousness.⁴⁸ However, the Commission has not cited any analysis of the current test for inventive step, bearing in mind the current post-RTB Act definition of the prior art and the person skilled in the art. In particular the Commission has cited Jacob LJ's comments at [43] of *Angiotech Pharmaceuticals & Anr. and Conor Medsystems Inc* [2007] EWCA Civ 5 in support of the contention that the standard in Australia is lower.⁴⁹ However, that criticism was directed to a decision made under the pre-RTB Act legislation.

⁴⁵ *Study on Inventive Step, WIPO Standing Committee on the Law of Patents, 6 July 2015 SCP/22/3, at [92].*

⁴⁶ (2007) 235 CLR 173; [2007] HCA 21.

⁴⁷ [2007] HCA 21 at [43].

⁴⁸ *Inquiry Report* p.223.

⁴⁹ "It is perhaps noteworthy that currently Australian courts seem to be taking a very pro-patent view of obviousness and that patents are being upheld there which are not upheld elsewhere."

3.9. Flexibility is Important

It is significant that the Commission seeks to specify a test to be applied when assessing for inventive step and specify which test should not be applied. With good reason, the courts have avoided trying to devise too prescriptive a test for inventive step. Such a test is exactly the kind of thing Lord Diplock warned against in *Johns-Manville Corp's Patent* [1967] RPC 479 at 493-4:

I have endeavoured to refrain from coining a definition of "obviousness" which counsel may be tempted to cite in subsequent cases relating to different types of claims. Patent law can too easily be bedevilled by linguistics, and the citation of a plethora of cases about other inventions of different kinds. The correctness of a decision upon an issue of obviousness does not depend upon whether or not the decider has paraphrased the words of the Act in some particular verbal formula. I doubt whether there is any verbal formula which is appropriate to all classes of claims.

The High Court was also aware of the value in having a suitably flexible regime with which to test the validity of a patent for obviousness. On this issue, the majority of the High Court in *Aktiebolaget Hässle v Alphapharm Pty Ltd* [2002] HCA 59 ("*Alphapharm*") paraphrased Aickin J's conclusion in *Wellcome Foundation*⁵⁰ as follows:⁵¹

"(i) inventions may be the result not only of long experiments and profound research but also of chance, sudden lucky thought or mere accidental discovery; (ii) not all inventions are to be classified as successful solutions to a problem which had presented a "long-felt want"; (iii) to the contrary, inventions which are an advance of contemporary expectations and thus reveal an "unfelt want" may well involve an inventive step; and (iv) in cases falling within (iii), experiments and research would throw no light on the quality of what was claimed as an inventive step."

The majority in *Alphapharm* observed that the test that the person skilled in the art "directly be led as a matter of course to try with an expectation of success" for obviousness was not appropriate when the invention lay in perceiving "the true nature of the problem" to which "straightforward experiments" would provide the solution.⁵² Similar limitations to the appropriateness of the test apply to the Commission's proposed test. Accordingly, by directing decision makers towards a single obviousness test, the Commission runs the risk of shifting the balance to favour a particular type or types of invention. There is nothing in the Inquiry Report to suggest that inventions that may perceive the true nature of a problem have any less social value than those that might be more readily assessed using the Commission's proposed test.

3.10. Europe's problem-and-solution approach

The Commission believes that "*Australia should align the obviousness test with the approach in Europe, where a similar 'problem-solution' approach to assessing inventive*

⁵⁰ *Wellcome Foundation Ltd v VR Laboratories (Aust) Pty Ltd* (1981) 148 CLR 262 at 272, 279, 287; 34 ALR 213 at 217-18, 223, 229-30.

⁵¹ *Alphapharm* at [38].

⁵² *Alphapharm* at [52].

step is used"⁵³ In Europe, when taking this approach, the person skilled in the art is imbued with a common general knowledge and then it is necessary to determine the closest prior art. The closest prior art is described as "*that which in **one single reference** discloses the combination of features which constitutes the most promising starting point for development leading to the invention*"⁵⁴. Once the closest prior art has been determined, it is then necessary to establish the "*objective technical problem*" to be solved, and finally consider whether or not the claimed invention, starting from the closest prior art and the objective technical problem, would have been obvious to the person skilled in the art.⁵⁵ Thus, in Europe also, there is a division of common general knowledge and prior art information.

Furthermore, similarly to Australia, this prior art information can be taken alone or in combination with the common general knowledge. Also similarly to Australia, two or more pieces of prior art can be combined for the purposes of considering inventive step when it is reasonable to do so. Relevant factors to consider include:

- whether the content of the disclosures is such as to make it likely or unlikely that the person skilled in the art would combine them;
- whether the disclosures come from similar neighbouring or remote technical fields; and
- if there is any basis for the person skilled in the art to associate the two or more disclosures with each other.⁵⁶

Accordingly, the way in which Europe treats the prior art is not radically different from the way it is treated in Australia. However, in Australia it is not necessary to identify the closest piece of prior art.

3.11. Remember to be flexible

Further on the approach taken in Europe, if an invention has an inventive step over the "closest prior art", then it is taken also to be inventive over all other, more remote publications. At best, the EPO Examination Guidelines foreshadow that, in some cases, there may be several equally valid starting points for the assessment of an inventive step, and that it may be necessary to apply the problem-and-solution approach to each of these starting points in turn.⁵⁷

The problem-and-solution approach is adopted by the Technical Boards of Appeal in substantially all cases, even though the EPO itself recognises that this approach is not the only way of determining whether or not an invention involves an inventive step, and it has been observed that the problem-and-solution approach may be too rigid.⁵⁸ For example, it may find an invention to involve an inventive step if there is no express

⁵³ *Inquiry Report* p. 226.

⁵⁴ *Guidelines for Examination in the EPO, Part G, Ch. VII - Inventive Step, at Section 5.1.*

⁵⁵ *Guidelines for Examination in the EPO, Part G, Ch. VII - Inventive Step, at Section 5.*

⁵⁶ *Guidelines for Examination in the EPO, Part G, Ch. VII - Inventive Step, at Section 6.*

⁵⁷ *Guidelines for Examination in the EPO, Part G, Ch. VII - Inventive Step, at Section 5.1.*

⁵⁸ *Paper by Julian Crump, then Secretary General, now Vice President of FICPI provided as Annex 1C of the Institute of Patent and Trade Mark Attorneys of Australia and the Australian Federation of Intellectual Property Attorneys submission on the Exposure Draft of the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 and Explanatory Memorandum dated 4 April 2011 p 7.*

"pointer" in the prior art to adopt the claimed solution, even where that solution might be otherwise thought to be obvious in regard to the prior art.⁵⁹

It is questionable whether adopting the European approach will necessarily have the desired effect upon the threshold of inventive step in Australia. Indeed, it may simply result in us importing new limitations and peculiarities from the European system. If a different test is to be adopted, we may be better off instead optimising our own test.

3.12. How do we adjust inventive step?

IPTA submits that it is unwise to try and redefine or confine the concept of "obviousness", and that any adjustment to inventive step should focus on the context within which the test operates. As the Commission has noted, apart from the obviousness test, there are three further aspects to the assessment of inventive step:

- the definition of the invention itself;
- the prior art; and
- the person skilled in the art.⁶⁰

The Commission acknowledges that each of these three aspects was expanded or enhanced by the RTB Act.⁶¹ In particular, the requirements for supporting the claims defining the invention were enhanced, the common general knowledge possessed by the skilled person was expanded so that it is no longer confined to Australia, and the prior art base was expanded by removing the explicit requirement for prior art to be ascertained, understood and regarded as relevant. These changes were implemented less than four years ago and there simply has not been enough time to adequately consider the full impact of them.

3.13. Effect of the RTB Act changes to claim support and disclosure requirements

The Commission has indicated that *"It is also unclear if the Raising the Bar reforms addressed the tendency for IP Australia to grant broader claims (and thus allow for broader market protection) than the EPO"*.⁶² On this, the Commission has cited research on patents granted as at September 2008, before the implementation of the RTB Act reforms,⁶³ and submissions made by Professor Andrew Christie. However, as explained by Professor Christie during the public hearings, he has *"no data"* on post-RTB Act

⁵⁹ Paper by Julian Crump, then Secretary General, now Vice President of FICPI provided as Annex 1C of the Institute of Patent and Trade Mark Attorneys of Australia and the Australian Federation of Intellectual Property Attorneys submission on the Exposure Draft of the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 and Explanatory Memorandum dated 4 April 2011 p 7.

⁶⁰ Inquiry Report p. 220-221.

⁶¹ Inquiry Report p. 220-221.

⁶² Inquiry Report p. 224

⁶³ Inquiry Report p. 224 citing, *inter alia*, Christie, A., Dent, C. and Lim, A. 2013, *An empirical comparison of the outcome of patent examination in the USPTO, the EPO and IP Australia*, TILEC Conference 2013, Tilburg, The Netherlands.

patents.⁶⁴ Professor Christie also indicated that *"this obsession with inventive step is somewhat misguided."*⁶⁵

IPTA agrees with Professor Christie that it is misguided to focus on the inventive step threshold and not consider the impact other changes have on the breadth of claims granted. In particular, both the claim support and disclosure requirements introduced by the RTB Act influence the scope of the claims that can be pursued and granted in Australia.

IPTA submits that the lack of data on the effect of the RTB Act changes on patents means that any proposals for further reform are premature and at risk of being counterproductive as the present state of Australia's patent system is not properly understood. The lack of relevant data was discussed above in Section 2. That said, as discussed below, it is clear that stronger claim support and disclosure requirements now apply, and there is nothing to suggest that the higher standards are not being applied by IP Australia. Put simply, for the same level of information in an application, patent applicants cannot pursue the same breadth of claim post-RTB Act as pre-RTB Act.

CSR Building Products Limited v United States Gypsum Company [2015] APO 72 ("CSR Building") was the first Australian Patent Office decision on the new claim support and enablement requirements. This decision illustrates that the bar had indeed been raised on the types of claims that could be validly pursued in an application, separate from any novelty or inventive step considerations.

The 'disclosure' requirement obliges a patent applicant to teach the skilled reader how to put the invention into practice. Prior to the RTB Act, the test for full description was expressed in *Kimberly Clark Australia Pty Ltd v Arico Trading International Pty Ltd* [2001] HCA 8 at [8] as:

"... will the disclosure enable the addressee of the specification to produce something within each claim without new inventions or additions or prolonged study of matters presenting initial difficulty?"

Consequently, when a claim was broad, but the specification had still enabled one specific embodiment, the full description requirement was still met.

A patent specification is now required to *"disclose the invention in a manner that is clear enough and complete enough for the invention to be performed by a person skilled in the relevant art"*.⁶⁶ The Explanatory Memorandum for the *Intellectual Property Laws Amendment (Raising the Bar) Bill 2011* explains that this disclosure requirement is intended to:

*"...require enablement across the full width of the claims, while adopting language that is consistent with that used in other jurisdictions. The wording in the amendment is similar to s 14(3) of the UK patents legislation, which has been interpreted as imposing this requirement. The wording is also similar to [Article] 83 of the European Patent Convention, which has been interpreted with similar effect. **The intention is that paragraph 40(2)(a) be given, as close as is practicable, the same effect as the corresponding provisions of UK legislation and the European Patent Convention.***

*... it is expected to be more likely that, where the claims are broad, **the specification will need to give a number of examples or describe alternative embodiments or variations** extending over the full scope of the claims. This ensures that the monopoly*

⁶⁴ Transcript of Proceedings, Productivity Commission, Inquiry Into Intellectual Property Arrangements: line 28, p. 449

⁶⁵ Transcript of Proceedings, Productivity Commission, Inquiry Into Intellectual Property Arrangements: lines 34/35, p. 449.

⁶⁶ Section 40(2)(a)

*extends only to that which could reasonably be said to be disclosed and no further.*⁶⁷
(emphasis added and citations omitted)

The present disclosure requirement specifies that patent applicants enable the skilled person to perform the invention across the full scope of the claims without undue burden, allowing for a reasonable amount of trial and error. Accordingly, broad claims should require a more comprehensive disclosure of how to work the invention in a wide range of examples or embodiments.

Turning to the 'support' requirement, the pre-RTB Act requirement of fair basis required consistency between what is claimed and "*what the body of the specification read as a whole discloses as the invention*".⁶⁸ The present 'support' requirement is intended to require that:

1. there must be a basis in the description for each claim; and
2. the scope of the claims must not be broader than is justified by the extent of the description, drawings and contribution to the art.⁶⁹

In *CSR Building*, the support requirement was summarised as "*the scope of the claims should correspond to the technical contribution to the art*".⁷⁰ To this end, when assessing the claims to determine if they meet the support requirements, it is necessary to:

1. construe the claims to determine the scope of the invention as claimed,
2. construe the description to determine the technical contribution to the art, and
3. decide whether the claims are supported by the technical contribution to the art.⁷¹

As IPTA explained during the public hearings, pre-RTB Act, Australia had a very low threshold for full description and claim support.⁷² In this context, IP Australia's tendency to grant broader claims can be attributed, in no small part, to IP Australia rightfully allowing a broad claim based on very little support and little description completely in accordance with our old legislation.⁷³ The present claim support and disclosure requirements are significantly stronger and are likely to have addressed the issue of "unduly" broad claims being granted in Australia.

3.14. The Bane of Hindsight

Reminders of the qualitative nature of obviousness, cautions about avoiding an overly specific definition of the obviousness test, and the careful treatment and classification of the prior art, are all to guard against the effect of hindsight in the assessment of inventive step. The Commission acknowledges that during adjustment to a new provision there is potentially greater risk of hindsight bias. However, the Commission goes on to

⁶⁷ *Explanatory Memorandum, Intellectual Property Laws Amendment (Raising the Bar) Bill 2011*, p. 47-48

⁶⁸ *Lockwood Security v Doric Products* [2004] HCA 58 at 99

⁶⁹ *Explanatory Memorandum, Intellectual Property Laws Amendment (Raising the Bar) Bill 2011*, p. 48-49

⁷⁰ [2015] APO 72 at [109] quoting *Fuel Oils/EXXON* (T409/91) [1994] OJ EPO 653 at 659

⁷¹ [2015] APO 72 at [115]

⁷² Transcript of Proceedings, Productivity Commission, Inquiry Into Intellectual Property Arrangements: lines 23-25, p. 676.

⁷³ Transcript of Proceedings, Productivity Commission, Inquiry Into Intellectual Property Arrangements: lines 26-29, p. 676.

say that "if there is a risk of hindsight bias it would be incumbent on patent applicants to prove otherwise — there should be a high burden of proof on firms and individuals requesting patent protection".⁷⁴ However, this underestimates the importance of establishing, from the outset, processes that minimise the prospect of indulging in hindsight. As the former Justice of the High Court of Australia, Susan Crennan, has noted:

The limitation of hindsight is now confidently said to be that individuals routinely overestimate the ex-ante predictability of events after they have occurred and, indeed, it has been asserted that individuals are not cognitively able to prevent knowledge through hindsight from impairing their analysis of events.

*...[This can] raise interesting implications in respect of confident assertions that too many obvious patents are granted or that the threshold for inventiveness is not high enough. Simple inventions, especially simple combinations, are the most likely casualties of raising standards.*⁷⁵

3.15. Secondary Indicators of Inventive Step

The proxies employed by the Commission (See Section 2) can be contrasted with the secondary indicators of an inventive step identified by the Courts. As noted in *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd* [2007] HCA 21 ("Lockwood") at [115]:

Secondary evidence, such as commercial success, satisfying a long-felt want or need, the failure of others to find a solution to the problem at hand and copying by others such as competitors, has a role to play in a case concerning an inventive step.

These indicators consider the specific context of the development of an invention (long-felt want or need, and the failure of others to find a solution to the problem at hand), as well as how the invention is received by the market (commercial success, and copying by others). An invention that fulfils a long-felt want and is, as a result, a commercial success might be readily considered socially valuable.

The public interest may not, however, be well served by relying too heavily on these secondary indicators. *Lockwood* cited with approval the warning of Nicholls VC that secondary evidence should not be permitted to "obscure the fact that it is no more than an aid in assessing the primary evidence".⁷⁶ Indeed, it has been recognised that it is important to have a suitably flexible regime in which to test the validity of a patent for obviousness in view of the different ways in which an invention can come about.

⁷⁴ *Inquiry Report* p. 228.

⁷⁵ Crennan, Susan. *Obviousness - different paths through Scylla and Charybdis*, *Intellectual Property Forum: Journal of the Intellectual and Industrial Property Society of Australia and New Zealand*, No. 71, December 2007, p.17-8.

⁷⁶ *Molnlycke AB v Procter & Gamble Ltd (No 5)* [1994] RPC 49 at 113.

3.16. Once again, timing is everything

Crucially, none of the secondary indicators of inventive step are factors that can be assessed or measured at the earliest priority date of an invention. This illustrates how challenging it is to bring concepts of social value into the test for inventive step.

The true social value of a patent can only be judged in hindsight. Its value will depend not only on the nature of the invention, but also on how that invention is used by the patentee and the impact that has on the public. Expecting the test for inventive step to predict an invention's ultimate social value may be asking too much from the test. The test is best defined as a wholly objective qualitative test concerned with the presence or lack of inventive step, rather than the level of inventiveness.⁷⁷ Predictions about the social value of an invention take away from the wholly objective qualitative nature of the test.

While the Commission may consider the inventive step to be "*the closest proxy for an invention's social value*"⁷⁸ or the "*closest proxy for an invention's technological advance*",⁷⁹ it does not necessarily follow that we should change the test for an inventive step in the hope that it will perform better at predicting social value.

In any event, there has not been enough time to adequately consider the full impact of the RTB Act changes. Indeed, as noted by The Walter and Eliza Hall Institute of Medical Research in its submission on the Draft Report:

*It is critical to distinguish between theoretical or academic, and real problems. Therefore, we believe that no changes to the test for inventive step are required and we welcome an evaluation on the effects of the amendments after a fair and reasonable period of operation so that an informed decision can be made. Ongoing questioning of Australia's IP system adds to business uncertainty as to Australia as a consistent IP jurisdiction, particularly if the questions are not based on evidence of tangible issues.*⁸⁰

There are already three different standards of inventive step to be considered for live Australian applications and patents, bearing in mind the changes that have been made to the *Patents Act 1990* by the RTB Act and the *Patents Amendment Act 2001*. Introducing a fourth inventive step standard in the hope of predicting the future social value of an invention is unlikely to be in the public interest.

3.17. We should leave inventive step alone

The Commission clearly intends for the proposed changes to materially affect the inventive step threshold in Australia. However, it is unclear whether adopting the approach taken in Europe will have any advantages. Instead, the Commission's recommendation restricting the test for obviousness may unfairly curtail the access of certain inventions to patent protection. In any event, there are already three different standards of inventive step to be considered for live Australian applications and patents,

⁷⁷ *Study on Inventive Step, WIPO Standing Committee on the Law of Patents, 6 July 2015 SCP/22/3, at [92].*

⁷⁸ *Draft Report p. 8.*

⁷⁹ *Inquiry Report p. 14.*

⁸⁰ *Submission No. DR571 to the Productivity Commission on the Draft Report on Intellectual Property Arrangements, The Walter And Eliza Hall Institute Of Medical Research, received 20 June 2016, p. 3.*

bearing in mind the changes that have already been made to the Patents Act. IPTA submits that it is not in the public interest to introduce a fourth standard.

4. **Technical Features are Already in Claims**

The Commission has asserted that *"in Australia, inventions may pass the inventive step (and novelty test) on the basis of 'non-technical features' in the claims. This risk arises because the invention as a whole is assessed for the purposes of inventive step and novelty. By contrast, in Europe these tests are based only on the technical features in the claims."*⁸¹

Rule 43 of the EPC does specify that the *"claim shall define the matter for which protection is sought in terms of the technical features of the invention."* The Guidelines for examination in the EPO set out that "technical features" are as follows:

2.1 Technical features

The claims must be drafted in terms of the "technical features of the invention". This means that claims should not contain any statements relating, for example, to commercial advantages or other non-technical matters, but statements of purpose should be allowed if they assist in defining the invention.

It is not necessary that every feature should be expressed in terms of a structural limitation. Functional features may be included provided that a skilled person would have no difficulty in providing some means of performing this function without exercising inventive skill (see F-IV, 6.5). For the specific case of a functional definition of a pathological condition, see F-IV, 4.22.

Claims to the use of the invention, in the sense of the technical application thereof, are allowable.

As a first point, it is important to note that claims in Europe are not confined to technical features. As stated in the guidelines for examination in the EPO, *"[i]t is legitimate to have a mix of technical and non-technical features appearing in a claim...The non-technical features may even form a major part of the claimed subject-matter. However, ...the presence of an inventive step under Art. 56 requires a non-obvious technical solution to a technical problem."*⁸²

Although Australia's legislation does not explicitly refer to "technical features", IPTA submits that it is inappropriate for the Commission to conclude that claims in Australia can be devoid of material technical features. In Australia, the claims must:

- define the invention;⁸³
- be clear and succinct and supported by matter disclosed in the specification;⁸⁴
- not rely on references to descriptions or drawings unless absolutely necessary to define the invention;⁸⁵ and

⁸¹ *Inquiry Report* p. 223.

⁸² *Guidelines for Examination in the EPO, Part G, Ch. VII - Inventive Step, at Section 5.4.*

⁸³ *Section 40(2)(b) and (c).*

⁸⁴ *Section 40(3).*

- relate to one invention only.⁸⁶

These existing requirements ensure that claims in Australia must include technical features and there is nothing to suggest that IP Australia has a practice of ignoring technical features of the claims. For example, when considering whether the claims of a patent application define one or more inventions, the Patent Manual of Practice & Procedure explicitly directs Examiners to assess whether or not claims share one or more "common special technical features".⁸⁷

In relation to the requirement that the claims define the invention, Bennett J states in *Seafood Innovations Pty Ltd v Richard Bass Pty Ltd* [2011] FCAFC 83 at [44] and [45]:

"The claims are indeed required to define the invention pursuant to s 40(2)(c) of the Act. However, pursuant to s 40(2)(a) of the Act, it is the whole of the specification including the claims that must describe the invention fully, including the best method known to the applicant of performing the invention..... The claims are not required to provide instructions as to how to make the [invention] work[s]. The claims are required to define the invention so as to make clear the monopoly claimed by the patentee.

...

The monopoly is as set out in the claims. The fact that the claims (in contrast to the specification) do not give instructions for use of the apparatus is not a basis for invalidity for failure to define the invention for the purposes of s 40(2) of the Act."

The Patent Manual of Practice & Procedure states in Section 2.11.4 Claims Define the Invention that:

"The objection of failing to define the invention will typically arise in the following ways:

- *Claims of the form 'My invention is worth \$1 million dollars', or 'My invention works better than X's invention'. Such claims are most commonly found in private applicant cases.*
- *Claims that bear no relationship to anything described in the specification."*

The Commission has not provided any examples of claims having non-technical features that are still nevertheless considered to define the invention. It is clear that this requirement already serves to prevent claims that contain statements relating to commercial advantages or other non-technical matters consistent with the Manual.⁸⁸

As a further example, both Australia and Europe permit claiming by result. That is, a claim drafted with reference to the result achieved, rather than the specific technical features that produce that result.

It is Australian practice to object to "claims by result" that do not include the technical features necessary for achieving the desired result. Nonetheless, broad "claims by result" may be enabled and supported where the result defined in the claims represents a practical application of a principle disclosed in the specification. On the other hand, if claims extend to subject matter that cannot be performed by any principle in the specification, then the claim is not enabled across its full scope.

⁸⁵ Section 40(3A).

⁸⁶ Section 40(4).

⁸⁷ Australian Patent Manual of Practice and Procedure, Section 2, Point 11.1, Claims relate to one invention only – lack of unity.

⁸⁸ See Australian Patent Manual of Practice & Procedure 2.11.7.6A Claiming by Result and Guidelines for Examination in the EPO, Part F, Ch. IV - Section 4.10.

With regard to the support requirements, it is considered by the Patent Office that the scope of the claims *"should correspond to the technical contribution to the art"*.⁸⁹ According to the Explanatory Memorandum which accompanied the present legislation, "support" requires that:

- there must be basis in the description for the claims; and
- the scope of the claims must not be broader than is justified by the extent of the description, drawings and contribution to the art.

These requirements clearly tie the features in the claims to the technical aspects of the invention.

The Commission has noted that

"In addition to the role of legislation and case law, assessment procedures have an important bearing on patent allocation.

...

*Overcoming the information asymmetry between applicants and patent offices remains a key challenge in achieving improved decision making.*⁹⁰

By recommending that patent applicants are required to identify the technical features of the invention in the claims, the Commission has implied that applicants in Australia may obscure the true nature of the invention with non-technical features. The Commission is also of the view that *"[i]n Europe, a patent applicant must identify the technical features of the invention in their set of claims. This enables the patent office to better target genuine advances in technology"*⁹¹ However, the Commission has not identified any clear example of a claim being granted solely on a non-technical feature, such a statement relating to a commercial advantage. Furthermore, the Commission has not made clear how such a claim would be considered to be clear and succinct and supported by matter disclosed in the specification.

The Commission has provided a list of patents in Box 7.1 that it suggests are *"granted to inventions that fail to embody a non-obvious advance in technology (box 7.1)"*.⁹²

First, of the patents listed in Box 7.1, half relate to patents granted under the pre-RTB Act legislation. Secondly, of the remaining six patents that relate to the post-RTB Patents Act, there is nothing to suggest that this is in any way some sort of representative subset of cases including claims that are devoid of technical features. Taking Australian Patent No. 2012216875 as an example, claim 1 is as follows:

"A heating article comprising a support intended to be heated, said support comprising a surface covered by a non-stick coating, the non-stick coating comprising at least a fluorocarbon resin based sintered layer forming a continuous network, wherein the sintered layer is a finishing layer further comprising a mixture of magnetizable particles and non-magnetizable particles, part of the magnetizable particles being inclined at an angle α with respect to the

⁸⁹ [2015] APO 72 at [109] quoting *Fuel Oils/EXXON* (T409/91) [1994] OJ EPO 653 at 659

⁹⁰ *Inquiry Report* p. 229-230.

⁹¹ *Inquiry Report* p. 16.

⁹² *Inquiry Report* p. 223.

surface of the support and the other magnetizable particles being substantially parallel to the support such as to form a three-dimensional decoration."

IPTA would like to invite the Commission to identify the non-technical features of this claim.

The Commission has stated that "[t]he Australian Patent Office Manual of Practice and Procedure should be updated to emphasise that examiners will consider the technical features of an invention for the purposes of inventive step and novelty."⁹³ However, there is no clear evidence that Examiners failed to consider the technical features of an invention for the purposes of inventive step and novelty to the extent that Examiner looked to secondary indicators of inventive step. This is in no way inconsistent with the approach in Europe where secondary indicators can also be considered.⁹⁴

Overall, the Commission has not identified any compelling need to make the changes to the requirements for patent claims in Recommendation 7.3 of the changes to the Australian Patent Manual of Practice & Procedure recommended in Recommendation 7.2.

5. **Objects Clause**

Notwithstanding the amended wording of the Productivity Commission's proposed objects clause, IPTA is not convinced that an objects clause is desirable nor useful and fears that its introduction would create uncertainty. IPTA is not convinced there would be any value in an objects clause and considers that it should not be used as an examination guideline since this would introduce undesirable subjectivity.

The Inquiry Report is unclear how the objects clause would be implemented in practice, but cites the following as ways in which its introduction will enhance the patent system:

- elevate patent quality over time (p. 28);
- provide greater assistance to decision makers involved in the design and application of the Act (p. 217);
- help ensure that decisions on the application and design of the Patents Act are consistent over time with a well-functioning IP system (p. 217);
- help clarify the context for compulsory licensing and the considerations that should guide a court (p. 217);
- be useful in underpinning decisions on whether to grant a patent (p. 217);
- influence the granting of patents through the interpretation of the patent criteria, including the manner of manufacture test (p. 217);
- help improve the likelihood that decisions align with policy objectives (p. 218);
- by enshrine the core economic principles that underpin a well-functioning IP system, it would help shield the system against further expansion in the scope and strength of rights, and guide disputes over the intent of future legislative change (p. 218); and
- help to improve the quality of software patents (p. 281).

Despite listing these admirable objectives, there is no guidance in the Inquiry Report as to *how* the objects clause would operate in practice on a case by case basis. It is implied that the objects clause would apply at the time of grant of a patent and in any

⁹³ Inquiry Report p. 227.

⁹⁴ See Guidelines for Examination in the EPO, Part G, Ch. VII, Section 10, Secondary Indicators.

invalidation proceedings. It appears that the Productivity Commission envisages that the objects clause would be borne in mind when considering any ground of patentability or revocation. However, when considering each of those grounds separately, it is not clear how it would apply, nor is it clear how the objects clause would assist an assessment of each ground. IPTA considers that it is neither necessary nor helpful to place a gloss of the kind proposed by the objects clause over the operative provisions of the Patents Act. Those provisions should be able to be determined and applied on a proper construction of their words and reliance on an objects clause should not be necessary.

If it is intended that the objects clause will operate **only** to inform decisions on the *design* of the Patents Act by lawmakers, rather than operate to inform the application of the Patents Act to a particular patent application or patent on a case by case basis, IPTA has no objection to the insertion of the proposed objects clause.

The Inquiry Report notes that the introduction of an objects clause was criticised by both IPTA and the Law Council of Australia on the basis that it would create confusion and scope for dispute, but suggests that such uncertainty would be short lived, and that certainty should not be preferred at the expense of a net cost to the community (p. 218).

However, what the Inquiry Report does not address, is that such uncertainty – even if short lived (which IPTA does not accept) – can impose a long lasting net cost on the community. For example, lack of certainty in patent law is likely to affect business decisions with respect to where a company might base its innovative activities or commercialise its products. If Australian patent law is seen to be in a state of flux, with a clause that is capable of a range of interpretations, those companies may decide that it is not worth the risk to seek patent protection and / or commercialise its innovations here.

The proposed text of the objects clause, notwithstanding that it has been amended to remove references to inventions that are "*socially valuable*", still calls for the making of value judgements. What is considered to "*enhance the wellbeing of Australians*" or "*promote technological innovation*" is likely to change over time, including over the lifespan of a patent. What is considered to meet this test at the time of grant of a patent may over the term of the patent be found to fall short, meaning that a granted patent could become invalid despite satisfying the criteria at an earlier date. Likewise, a patent application may be refused for failure to meet this criteria and later (if development continues despite a lack of protection), with the benefit of hindsight, be found to be a valuable technological development. Not only would the patent applicant be deprived of protection in such circumstances, but it may halt development of the technology at great cost to the community. It is a reality of the patent system that patent protection is sought in the infancy stage of a discovery: it may well be that the value of the invention is not yet fully appreciated at that early stage.

The proposed objects clause would therefore introduce undesirable complexity for decision makers. What factors should be taken into account? How should they be balanced? How can a decision maker predict the direction of future innovation and the needs of future innovators? This recommendation would add to the deadweight cost of the Australian patent system introduced through implementation of Recommendation 7.1, and would likely increase the likelihood of appeals in the hope that

a different decision maker may come to a different subjective assessment of the invention under the objects clause.

Further, IPTA refers to the submission of the Law Council of Australia's submission on Draft Recommendation 6.2⁹⁵ (being the predecessor to Recommendation 7.1), and adopts the following passage, reproduced here for convenience (citations omitted):

Importantly, as the Draft Report notes, in 2010, the Advisory Council on Intellectual Property (ACIP) recommended the inclusion of an objects clause in the Patents Act solely to assist with the test for patentable subject matter. Since that time, and subsequent to *Grant v Commissioner of Patents* (2006) 154 FCR 62 referred to by the Draft Report, the High Court has handed down its decision in *D'Arcy v Myriad Genetics* (2015) 325 ALR 100 (*D'Arcy*), in which it found that isolated nucleic acid sequences are not patentable subject matter under the Patents Act. In doing so, the High Court held that when a new class of claim involves a significant new application or extension of the concept of 'manner of manufacture', factors connected directly or indirectly to the purpose of the Patents Act may assume importance. These factors were said to include:

- whether the invention as claimed is for a product made, or a process producing an outcome as a result of human action;
- whether the invention as claimed has economic utility;
- whether patentability would be consistent with the purposes of the Patents Act and, in particular:
 - whether the invention as claimed, if patentable under section 18(1)(a), could give rise to a large new field of monopoly protection with potentially negative effects on innovation;
 - whether the invention as claimed, if patentable under section 18(1)(a), could, because of the content of the claims, have a chilling effect on activities beyond those formally the subject of the exclusive rights granted to the patentee;
 - whether to accord patentability to the invention as claimed would involve the Court in assessing important and conflicting public and private interests and purposes;
- whether to accord patentability to the invention as claimed would enhance or detract from the coherence of the law relating to inherent patentability;
- relevantly to Australia's place in the international community of nations:
 - Australia's obligations under international law; and
 - the patent laws of other countries;
- whether to accord patentability to the class of invention as claimed would involve law-making of a kind which should be done by the legislature.

The IPC considers that this significant change in the approach of the Australian Courts (now adopted by IP Australia) to the assessment of the threshold question of what constitutes patentable subject matter (which mandates an assessment of 'policy' considerations for new classes of inventions) negates the need for an objects clause.

The IPC notes that the proposed objects clause appears to be contrary to Australia's international obligations, in so far as it provides that the object of the legislation is 'to enhance

⁹⁵ See Submission DR490, p11ff.

the wellbeing of Australians' and 'balance the interests of patent applicants and patent owners, the users of technology ... and Australian society as a whole'.

Article 3.1 of TRIPS provides:

Each member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits.

Similarly, Article 17.1(6) of AUSFTA provides:

In respect of all categories of intellectual property covered in this Chapter, each Party shall accord to nationals of the other Party treatment no less favourable than it accords to its own nationals with regard to the protection and enjoyment of such intellectual property rights and any benefits derived from such rights.

If, as appears to be the case, the proposed objects clause requires Australian Courts to give Australian interests priority over the interests of foreign patent-holders, this would clearly be contrary to both TRIPS and AUSFTA. As the IPC has previously submitted in its response to IP Australia's 'Patentable Subject Matter – Consultation on an objects clause and an exclusion from patentability July 2013', Australians should be entitled to expect that local interests will not receive priority when they seek to obtain or enforce patents in other countries, and as such, Australia should afford the same treatment to nationals of other countries here.

6. **Fees**

The Commission asserts that "*renewal fees that increase more proportionally with patent age help to ensure that only valuable patents are held in force, reduce economic rents, and limit the risk of patents being resurrected and reinterpreted to cover technology that was not originally contemplated...*"⁹⁶ IPTA disagrees with the negative premise of its recommendation to increase fees.

The costs of patent protection on the community have not been shown, by evidence, to be undue either in Australia or any other comparable country. IP Australia already takes care in setting fees such that a higher economic hurdle must be passed later in a patent's life. Most patents are allowed to lapse by about the eleventh year.

With respect to the Commission's recommendation in connection with claim fees, IPTA submits that the Commission appears to have misunderstood the effect of having more claims in a patent. The Commission asserts that "*claim fees...can help reduce the number and scope of claims...limiting the breadth of market protection*".⁹⁷

As noted above, the claims must relate to one invention only. The broadest definition of the invention is established by the one or more independent claims of the application. It does not follow that further claims will result in this definition becoming broader. Instead, additional claims are likely to be dependent claims that are directed to more

⁹⁶ *Inquiry Report p. 232.*

⁹⁷ *Inquiry Report p. 232.*

specific embodiments of the broader invention. Thus, restrictions on claim numbers do nothing to restrict the breadth of patent protection.

Furthermore, it appears that the Commission has not considered that certain types of inventions may be defined by multiple independent claims, each directed to a particular aspect of the invention. For example, an invention may include a novel compound (product), a new method for making the new product, an apparatus and/or system for performing the method, and uses of the new product. In circumstances such as these, changes to patent fees may have no impact upon the number of claims that are pursued, but will instead increase the costs imposed upon an applicant in order to pursue claims directed to legitimate aspects of their invention.

Also, depending upon the level of the claim fees, the fees may simply result in multiple applications being filed in order to claim all of the aspects of an invention of interest. In terms of examination efficiency, it would be preferable to have the claims directed to all aspects of the invention considered at first instance by the same Examiner. If an applicant is put in the position of having to pursue multiple applications, each directed to a different aspect of the same invention as a result of increases to claim fees, different aspects of the same invention are likely to be considered at different times and considered by different Examiners which will reduce the efficiency of the examination process.

On the other hand, if the applicant is forced to curtail pursuing certain aspects of the invention due to the restrictions imposed on claim numbers by claim fees, this may have the effect of reducing the value of the patent as not all valuable aspects of the invention can be appropriately defined within the limited number of claims.

7. **A Missed Opportunity - Compulsory Licensing Provisions**

The Commission has noted that “*compulsory licensing provisions are rarely invoked*”⁹⁸ This may be because some of the provisions in the Patents Act are erroneous and should be amended. The erroneous provisions have already caused difficulties in the drafting of the legislation to introduce the TRIPS Protocol provisions. IPTA believes that now would be a good time to correct this erroneous legislation.

Section 133(3B) was introduced into the Patents Act by the *Patents (World Trade Organization Amendments) Act 1994*. The amendments introduced by that Act were for the purpose of amending the law with respect to patents to enable Australia to accept the Agreement Establishing the World Trade Organization. In particular, the *Patents (World Trade Organization Amendments) Bill 1994* was for ensuring Australia’s “*patents legislation is fully consistent with the TRIPS agreement*” (see Hansard No. 197, 1994, page 2189). Accordingly, s133(B) should be in accordance with Article 31(I) of the TRIPS Agreement. However, s133(B) does not properly accord with the Article. Article 31 (I) states:

Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected...

⁹⁸ *Inquiry Report* p. 208.

(l) where such use is authorized to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:

(i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;

(ii) the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and

(iii) the use authorized in respect of the first patent shall be non-assignable except with the assignment of the second patent.

Article 31(l) is clearly intended to deal with situations where an application for a compulsory licence is made by the *owner* of the second patent in order to have a compulsory licence of the first patent to enable the invention of the second patent to be exploited. That is, the use of the first patent is authorized in order to permit the exploitation of the second patent by the holder of the second patent. This is the only appropriate construction bearing in mind the reference in Article 31(l)(ii) to the entitlement of a cross-licence. In this regard, a cross-licence can only occur if the owner of the first patent licences to the owner of the second patent and *vice versa*. Furthermore, as Article 31(l)(iii) states that the licence of the first patent can only be assigned with the assignment of the second patent, it is implicit that the licensee of the first patent is the same party that is able to assign the second patent. Thus, it is implicit that Article 31(l) concerns circumstances in which an application for a compulsory licence is made by the owner of the second patent.

In contrast, the current legislation concerns cases where "*the patented invention cannot be worked by the **applicant** without his or her infringing another patent*" (emphasis added). Thus, the current legislation is directed to situations in which the applicant obtains a licence to use the patented invention and a further licence to use the other invention. However, the legislation nevertheless states at s 133(3)(b) that the Federal Court "**must further order that the patentee of the other invention ...is to be granted, if he or she so requires, a cross-licence on reasonable terms to work the patented invention**" (emphasis added).

In the second reading of the *Patents (World Trade Organization Amendments) Bill 1994*, it was noted that the amendments were intended to ensure "*the conditions under which compulsory licences to work a patented invention are granted by a court will be extended to take account of the economic requirements of both the patentee and the person wishing to work the patented invention*" (see Hansard No. 197, 1994, page 2189). The cross-licence might be viewed as a means of enabling the patentee of the other invention to be compensated for the grant of the further licence. However, the patentee of the patented invention is not making use of the other invention, the applicant for the compulsory licence is. It is not equitable to require the patentee of the patented invention to compensate the patentee of the other invention for the applicant's use of the other invention.

Where an applicant requires licences of more than one patent these should be treated as separate compulsory licence applications. That being said, in circumstances where one of these patents relate to a broad generic technology, we do see some benefit in the Court being able to make an order that the applicant may only exploit the broad patent insofar as it is necessary to work the narrower patent, and more particularly to work the specific patented invention.

In its present form, subsection 133(3B) of the Patents Act does not appropriately address situations in which the owner of a dependent patent wishes to obtain a compulsory licence in relation to a dominant (broader) patent so that they may work their own invention (i.e. the invention of the dependent patent) in Australia. This error could be readily addressed rewording the section so that it is completely independent from subsection 133(1) and the conditions set out in subsection 133(2) which do not apply to such compulsory licences.

Such an amendment would provide a specific, targeted mechanism for remedying circumstances where patent protection is blocking an "*invention involv[ing] an important technical advance of considerable economic significance*",⁹⁹ thus mitigating any frustration of follow-on innovation.

⁹⁹ Section 133 (3B)(a).

8. **The Innovation Patent System**

RECOMMENDATION 8.1

The Australian Government should abolish the innovation patent system.

IPTA strongly disagrees with that recommendation firmly believes that the IPS should be reformed to address its deficiencies and retained.

The final report repeats the draft report in stating that the objective of the innovation patent system (IPS) is to promote innovation by Australian small and medium sized enterprises (SMEs). It goes on to state that while the Commission has been mindful of this policy objective, *"in assessing the IPS it has considered the welfare of the whole community"*.

The Productivity Commission appears to focus on the policy objectives for all the other IP systems discussed in the report. It is unclear to IPTA why the Productivity Commission chooses to diverge from that focus in the specific case of the IPS and how the Productivity Commission justifies such a divergence. Why is the IPS being treated differently to other types of IP?

IPTA understands that at least in part the Productivity Commission's views on the IPS are coloured by the Commission's chosen "overarching objectives" and in particular that, according to the Productivity Commission, in order to be effective, IP arrangements must "foster creative endeavour and investment in IP that would not otherwise occur" and "only provide the incentive needed to induce that additional investment or endeavour" (see the second of the "Key Points" in the report's summary).

This novel concept of "IP that would otherwise not occur" has not to the best of IPTA's knowledge ever been a key performance indicator (KPI) for intellectual property in Australia, perhaps because it is almost impossible to measure or determine or assess what IP is created that would otherwise not occur. It is IPTA's understanding that this approach by the productivity commission is loosely based on a number of somewhat niche academic publications (including Boldrin and Levine 2008; Stiglitz 2008 and Moir 2013). Even if this novel approach was the correct approach, and there is no evidence that it should be, it is almost impossible to quantify definitively whether or not creative effort would occur in the absence of IP protection. Further IPTA notes that there is no evidence to suggest that any other sophisticated economies with developed IP systems adopt this "additional innovation" approach as any part of their rationale for granting IP rights. It is also highly simplistic to consider the success or otherwise of an IP system in terms of whether or not it results in creative effort that would not otherwise occur, since it completely ignores the commercial factors that allow innovators to develop their inventions to a commercial stage, to create a market for their inventions, and to create a business to successfully exploit their inventions. Many of these efforts are not necessarily "creative" but they do require significant effort and expenditure of capital. It is often the security provided by a patent that provides the confidence to take these steps after the

"creative effort" has been expended. Innovation patents can provide Australian innovators with this confidence and security.

IPTA does not believe that the approach followed by the Productivity Commission is the correct approach, but let us assume for a moment that it is the correct approach and consider what IP might be created in the absence of IP rights, and what would not.

It is abundantly clear that some IP would be highly unlikely to be generated in the absence of IP protection, such as the expensive multi-year development and clinical testing of new beneficial pharmaceuticals, and in an entirely different field, the making of multi-million dollar blockbuster movies. Both are very expensive exercises in the creation of IP which would not occur in the absence of adequate financial rewards for the creators resulting from the availability of IP rights to protect their work and investment.

However some areas of creativity, particularly in more artistic areas might well occur regardless of whether IP protection is available. For example, many artists, particularly painters and sculptors, create works of art because they are passionate about art and creativity, love painting and have artistic statements to make, and not because of any IP rights, such as copyright, resulting from the creation of an artistic work. Further, at least initially, a painter's or sculptor's main source of revenue is likely to be the sale of the actual artwork which does not completely rely on IP rights. Based on the Productivity Commission's overarching objective of "effectiveness", copyright should therefore be denied for paintings and sculptures as the artistic work is likely to be created anyway.

Further in the literary world, while there are many authors who clearly write to make a living there may be many authors who write because they wish to be published or to make their opinions known to the world at large. Historically, particularly prior to the development of the internet, there was a not insignificant "vanity publishing" industry for would be authors who had written books that could not find commercial publishers. Such authors would typically pay to have their works published. Should those authors who are not creating works because they will be subject to copyright be denied copyright?

There are also, for example, many academics who publish their research results primarily to enhance their reputation and the reputation of their university, in part to obtain research grants. In general the more publications attributed to an academic author, the greater the reputation of that academic and the better the prospects for that academic to obtain grants to continue their research. If their research reports were not subject to copyright one would expect that they would still be published as the overarching reason for publication is not royalties based on copyright. Using the PC's "efficiency" metric, copyright should be denied in those circumstances also.

The problem also arises in how to distinguish accurately between IP which would have been created anyway and that which relies on IP protection of one sort or another.

IPTA stresses that it is not advocating the denial of copyright protection for artists or authors in the circumstances discussed above but is merely using those examples to demonstrate that this requirement for IP to be "additional IP" is not sensible policy.

Indeed how much IP is created because of the existence of the IP system and would not be created without it is virtually impossible to reliably determine with any accuracy. Further it is not entirely unclear that there is any evidence based research which in any way justifies the Productivity Commission's invention of this concept of additional innovation.

Turning to patents, how does one distinguish between a patent for an invention that arises because the IP system exists and one that would occur anyway regardless? Clearly while there may be some inventions that would be made in the absence of the availability of IP protection there are many that would not. The inventions that involve the patent applicant spending large sums of money on product development, testing, approval etc. that can be copied relatively easily would not be made, or if they were, the companies making them would quickly wither.

There are also a number of businesses that develop products that will preferentially invest in those products that can be protected by IP rather than those that cannot be protected. The inventions that are protectable are more likely to reach the marketplace.

IPTA understands that the Productivity Commission's approach to this is to divide patents into "low value" and "higher value" patents.

If we turn to the final report page 247 and to first full paragraph we see that the Productivity Commission argues that innovation patents are more likely to be of low value as the innovative step threshold is lower than the inventive step threshold. The low innovative step, it is argued, increases low value patents.

However there is no evidence to indicate that the value of a patent, social or otherwise, is related to the hurdle it had to overcome to grant, whether that hurdle is an innovative step or an inventive step.

Indeed the social value of an invention depends more on the commerciality of the invention and whether it is commercialised in the market in Australia or elsewhere, rather than on how easily it clears the patentability hurdle.

The problem with the Productivity Commission's approach is that it simplistically equates the barrier that the invention has to overcome to be valid, with the value of the patent. The value of a patent or an invention is not directly correlated with the level of inventive or innovative step the invention has to overcome in order to be granted. Some comparatively simple inventions may have great commercial value. A simple change of catalyst in a known industrial process may result in significantly improved yields or energy savings in the process. A very marked improvement of an existing product and/or process many steps removed from the prior art, and consequently, according to the Productivity Commission's approach having a higher level of inventive step and therefore of higher value, may be so far removed from existing processes that it is uncommercial or too expensive to implement and therefore of very little social value – apart from being a publication which inventors may consider in the future.

There is no clear evidence to suggest that a low level of innovative step results in patents of low value, social or otherwise.

It is the commercial usefulness of an invention that is critical to the value of the innovation not the level of the inventive step/innovative step barrier it has to hurdle. In fact often inventions that represent huge advances over the prior art are not successfully commercialised because of the effort required to create a successful market for these inventions. For example, there are many wonderful inventions that relate to new methods for the creation or storage of energy, but many of these have not been successfully commercialised because of difficulties competing with current methods for generation and distribution of energy.

The Productivity Commission's report somewhat simplistically considers innovation from an academic perspective and fails to understand, or even consider, the necessary financial investment and risk that is required to commercialise an innovation for the benefit of the public.

Further even if that were the case, that a low level of innovative step results in patents of low value, the solution would be to raise the level of innovative step as has previously been suggested by ACIP and a number of other expert groups .

If we consider the Productivity Commission's approach to the Innovation Patent system in the key points we see that the Productivity Commission notes that the IPS is intended to promote innovation by Australian SMEs.

This is an important aim because the government's current agenda (apart from the Innovation Agenda) is about jobs and growth. It is generally accepted that, in Australia, the majority of new jobs and are created in SME's. Much of the growth also comes from SME's, although Australia's reliance on mining (which employs comparatively few workers) and is very cyclical tends to have a disproportionate short term impact on growth.

It is not in dispute that the main users of the IPS are Australian SME's, which contrasts with the standard patent system where around 90% of applicants are overseas applicants.

The Productivity Commission notes that the IPS is little used compared to the standard patent system. That is not of itself a reason for getting rid of the IPS, as its administration is able to piggy-back inexpensively on the standard patent system which no one is suggesting should be abolished. It is also noted that the according to the recently released 2016 Australian Intellectual Property Report, "for the first time in three years, there was an increase in the demand for innovation patents in 2015. The report states that there was a 20% increase on the previous year and while some of that increase was driven by overseas applications (primarily from China) there was a significant 8% growth in applications from Australian residents.

The Productivity Commission suggests that although SMEs are the main users of the IPS they are also disadvantaged by it, however there is little evidence to support this position that there are "unintended consequences" of the IPS. There is a suggestion for example that they promote patent thickets, but no clear evidence that this is the case, save for one specific example (Britax Childcare) which was related to litigation, where there is a perceived need for the IPS due to the delays in obtaining the grant of a standard parent patent, which point is addressed in more detail below. In the Britax case the prosecution of the parent patent was significantly delayed and did not grant until 9 August 2012 – well after the litigation was concluded.

Further, all of the "unintended consequences" can be addressed by amendment of the legislation to e.g. raise the level of the innovative step closer to that of a standard patent, make examination compulsory after a fixed time period, place limits or conditions on the filing of divisional patents etc., many of which changes have already been put forward as suggestions for reform by various bodies including IPTA.

The abolition of the IPS would mean that Australia would no longer have an "alternative form of industrial right protection" which was recognised as being necessary by ACIP in its 1995 "Review of the Petty Patent System". In the "Executive Summary" ACIP state

that there would be overall net benefits to the Australian economy from providing such incremental protection for minor or incremental innovations which would fill the gap between designs and standard patents, be quick and easy to obtain, be cheap to obtain and enforce, be reasonably simple, help small/medium business enterprises, have a measure of certainty and last for a sufficient time to encourage investment in the developing and marketing of the innovation. ACIP recognised that some of those objectives conflicted so designed a system which might allow applicants to select characteristics that best suited their needs.

Obviously the IPS did not achieve the aim of lower cost enforcement, as enforcement is by means of the Federal Court in the absence of a streamlined system such as is available with the IP Enterprise Court in the UK (see IPTA's comments on chapter 18 below).

ACIP recognised in its list of recommendations that one of the features of the IPS should be "no pre grant opposition". This is important as under the current system all Australian standard patents are liable to pre grant opposition. It already takes a considerable period of time for an Australian standard patent to proceed to grant with most Australian patent applications remaining pending for about 3 1/2 years or more. Although expedited examination is available, Australia's pre grant opposition process means that even if a patent applicant who has become aware that a third party may be copying an invention which is the subject of an Australian patent application, obtains early acceptance of a patent application, that application can and typically will be the subject of a "strategic" pre grant opposition by the alleged infringer, seeking to delay the grant of the patent. While IPTA acknowledges IP Australia's recent efforts to speed up oppositions based on the "raising the bar changes", even the new speedier opposition process can take 2 years or more until a final written decision is issued by IP Australia. That decision is then subject to an appeal to the Federal Court which can add further significant delay of two years or more and further prevent the grant of a patent. Justice delayed is justice denied. Although the patentee may seek back damages, if the patent is ultimately granted and found to be infringed, the infringer may have already significantly damaged the patent applicant's market.

Because an innovation patent is not subject to a pre grant opposition, divisional innovation patents are often used in litigation not so much due to the level of innovation required (which can in any case be raised) but simply because in many cases it is the only type of patent available to the patentee at the time, if their standard patent is pending and/or subject to a strategic opposition.

Hence the so-called strategic use of innovation patents in litigation is more out of necessity given the delays in the grant of standard patent applications, particularly where an alleged infringer is anticipating litigation and commences opposition proceedings.

The Productivity Commission then goes on to suggest that there would be "strong grounds" for setting the innovative threshold at the same level as the inventive step threshold under the standard patent system. This however, according to the Productivity Commission would be "groundhog day" as the IPS would then resemble the old petty patent system. The productivity commission fails to properly consider the alternative solution which is to pitch the level of innovation above the current innovative step but below the recently raised inventive step level for standard patents.

The Productivity Commission also fails to appreciate that whatever its perceived faults, the petty patent system did at least allow a patentee to obtain the early grant of a patent for use in litigation avoiding the delays resulting from examination and opposition. This important function of the petty patent system was recognised by the Advisory Council on Industrial Property in its 1995 report on its review of the petty patent system. In fact, in paragraph 4.5 on page 27 of the report they state: "We consider that such strategies are legitimate and a useful aspect of the petty patent system". The innovation patent system was designed to retain this important function.

The Productivity Commission's proposal to simply abolish the IPS would re-introduce the gap in IP protection identified by ACIP and at the same time inhibit Australian patent applicants from enforcing their rights in Australia.

There is no evidence whatsoever to support the Productivity Commissions statement that "there would be greater benefits for the community if the IPS were abolished".

The simplification of the patent system would be marginal at best as the innovation patent system piggybacks on the standard patent system and there is no evidence to support the proposition that it significantly increases the costs of the IP system which is in any case revenue neutral for the government.

The reference to removing the ability of patent holders to use the IPS for strategic purposes again fails to appreciate the problem of patent enforcement where pre grant opposition applies to standard patents.

There is no evidence to suggest that the abolition of the IPS would improve patent integrity any more than reform of the IPS would and the suggestion that in some way "financier confidence" would be increased by abolition of IPS, benefiting SME's is entirely unsupported.

IPTA notes that the IPS is overwhelmingly used by Australian applicants (66%), which contrasts strongly with the standard patent system which is overwhelmingly used by overseas based applicants (now about 90%). That fact alone strongly suggests that the IPS is stimulating innovation in the Australian SME space which it is primarily aimed at.

Chapter 10: Pharmaceuticals - getting the right policy prescription

The Final Report makes a number of recommendations about pharmaceuticals and pharmaceutical patents. However, as with Pharmaceutical Patent Review Panel's Final Report on which the Productivity Commission has placed great reliance, the Final Report reveals a complete lack of understanding of the factors that promote innovation in the biomedical field in Australia, including the factors that contribute to investment in the biomedical field in Australia and the factors that encourage foreign pharmaceutical companies to make their products available in Australia.

IPTA made submissions in relation to the draft recommendations which appeared in the draft report, and it is clear that these submissions were afforded no weight by the Productivity Commission in the finalisation of their report. According, IPTA encourages the Government to look at those submissions and reject all recommendations made in the Final Report in relation to pharmaceuticals and pharmaceutical patents.

The Final Report is put forward as an example of evidence based policy making, but the material relied on as so called "evidence" appears to be nothing more than information or views that support preconceived views brought to the task by those carrying out the review. This was also clearly the case with the final report of the Pharmaceutical Patents Review panel. Any submissions which challenged those views, such as those of IPTA, were given little weight in the finalisation of the Final Report. In this way the Final Report is more an example of policy based evidence making than evidence based policy making.

It is clear that the Productivity Commission has a complete lack of confidence in the ability of the Australian biomedical research industry to grow, and considers that Australia will forever be a net importer of technology in this space. The Productivity Commission has made no recommendations whatsoever in relation to fostering and developing this industry so that Australia can benefit to a greater extent from the value created by this industry. In this regard the Final Report is extremely short sighted.

Our brief comments on the recommendations contained in Chapter 10 appear below:

RECOMMENDATION 10.1

The Australian Government should reform extensions of patent term for pharmaceuticals such that they are only:

- (i) available for patents covering an active pharmaceutical ingredient, and
- (ii) calculated based on the time taken by the Therapeutic Goods Administration for regulatory approval over and above 255 working days (one year).

The Australian Government should reform s. 76A of the *Patents Act 1990* (Cth) to improve data collection requirements for extensions of term, drawing on the model applied in Canada. Thereafter no extensions of term should be granted until data is received in a satisfactory form.

The philosophy behind pharmaceutical patent term extensions (PTEs) is to compensate patentees for the unreasonable curtailment of patent term caused by the marketing approval process. The marketing approval process involves considerable work and expenditure over a number of years as pharmaceutical companies carry out the work necessary to convince regulatory authorities that their product is safe and efficacious. This work also involves determining a suitable stable form of the active agent, and a suitable formulation and dosage regime to allow the active agent to achieve the desired pharmacological effect. Extensive clinical trials are required to demonstrate that the final product satisfies the onerous regulatory requirements that have been put in place to protect consumers. Since this work is carried out after the filing of the patent application, a considerable amount of the original 20 year term will have expired before the product is able to be marketed. The idea of a PTE is to compensate patentees for this lost patent term, so as to provide patentees with a term comparable to the term available for inventions in other fields. The Productivity Commission has provided no evidence to the effect that Australia's current PTE system is not achieving this.

In contrast, we know from experience with Singapore that a system based only on delays in processing by the regulatory authority does not allow patentees to receive

compensation for the unreasonable curtailment of patent term caused by the marketing approval process. Although data in relation to PTEs is not made publicly available by IPOS, IPTA's investigations have revealed that the number of PTEs granted by IPOS over the last 12 years since the provisions have been in effect is either one or two! This system is clearly not providing adequate compensation to patentees of pharmaceutical patents. The reasons why PTEs are important to pharmaceutical companies, and why they are critical in encouraging the level of expenditure of research and development needed to bring pharmaceutical products to market, were explained in IPTA's submission to the Productivity Commission and will not be repeated here.

In summary, the Productivity Commission's recommendation to replace Australia's working PTE system with a system based on Singapore's failed system should be rejected.

Similarly, the recommendation regarding the collection of data under s. 76A is misguided, being based on a flawed understanding of the way companies invest in research and development in the biomedical field. IPTA recommends complete removal of s. 76A.

RECOMMENDATION 10.2

The Australian Government should introduce a system for transparent reporting and monitoring of settlements between originator and generic pharmaceutical companies to detect potential pay-for-delay agreements. This system should be based on the model used in the United States, administered by the Australian Competition and Consumer Commission, and include guidelines on the approach to monitoring as part of the broader guidance on the application of the *Competition and Consumer Act 2010* (Cth) to intellectual property (recommendation 15.1).

The monitoring should operate for a period of five years. Following this period, the Australian Government should review the regulation of pay-for-delay agreements (and other potentially anticompetitive arrangements specific to the pharmaceutical sector).

IPTA encourages the Government to reject this recommendation. For various reasons explained to the Productivity Commission Australia's IP system does not encourage pay for delay agreements, and there is no evidence that such agreements are a problem in Australia. This proposal to introduce additional "red-tape" has not been justified by the Productivity Commission and should be rejected.

Chapter 17: Intellectual property's institutional arrangements

RECOMMENDATION 17.1

The Australian Government should promote a coherent and integrated approach to IP policy by:

- establishing and maintaining greater IP policy expertise in the Department of Industry, Innovation and Science
- ensuring the allocation of functions to IP Australia has regard to conflicts arising from IP Australia's role as IP rights administrator and involvement in policy development and advice
- establishing a standing (interdepartmental) IP Policy Group and formal working arrangements to ensure agencies work together within the policy framework outlined in this report. The Group would comprise those departments with responsibility for industrial and creative IP rights, the Treasury, and others as needed, including IP Australia.

IPTA is generally supportive of creating a coherent and integrated approach to IP policy and the recommendations seem in principal workable. However as with such arrangements how they are implemented will be critical. There is clearly a conflict arising from IP Australia's role as IP rights administrator and its involvement in policy development and advice. However as IP administrator, IP Australia's experience and knowledge will be critical in fully informing government on IP issues. At the same time perceived conflicts of interest do arise, such as the recent paper produced by IP Australia "The economic impact of innovation patents" produced by IP Australia's own in house economist. The paper suggested that the innovation patents system did not have a beneficial economic impact and which was subsequently provided to ACIP with the result that ACIP amended their report on the Innovation patent to the effect that the government should consider its abolition. Given that the administration of the IPS is in the hands of IP Australia, it would have been more transparent had the paper on the economic impact of innovation patents not been produced by an economist employed by IP Australia.

RECOMMENDATION 17.2

The Australian Government should charge the interdepartmental IP Policy Group (recommendation 17.1) and the Department of Foreign Affairs and Trade with the task of developing guidance for IP provisions in international treaties. This guidance should incorporate the following principles:

- avoiding the inclusion of IP provisions in bilateral and regional trade agreements and leaving negotiations on IP standards to multilateral fora
- protecting flexibility to achieve policy goals, such as by reserving the right to draft exceptions and limitations
- explicitly considering the long-term consequences for the public interest and the domestic IP system in cases where IP demands of other countries are accepted in exchange for obtaining other benefits
- identifying no go areas that are likely to be seldom or never in Australia's interests, such as retrospective extensions of IP rights
- conducting negotiations, as far as their nature makes it possible, in an open and transparent manner and ensuring that rights holders and industry groups do not enjoy preferential treatment over other stakeholders.

IPTA is generally in favour of greater transparency in negotiations. However, given that IP provisions are an important aspect of trade agreements IPTA does not see how it can be at all practical to exclude IP provisions (or other types of non-tariff barriers) from bilateral and regional trade agreements

Chapter 18: International cooperation in IP**RECOMMENDATION 18.1**

The Australian Government should:

- pursue international collaborative efforts to streamline IP administrative and licensing processes separately from efforts to align standards of IP protection. In so doing, it should consider a range of cooperative mechanisms, such as mutual recognition
- use multilateral forums when seeking to align standards of protection.

As far as IPTA is aware such efforts are already in train in patents with initiatives such as the patent prosecution highway, the global patent prosecution highway, e-PCT and the like. IP Australia is involved in multilateral forums and groups involved in patent harmonisation such as group B+.

RECOMMENDATION 18.2

The Australian Government should play a more active role in international forums on intellectual property policy — areas to pursue include:

- calling for a review of the TRIPS Agreement (under Article 71.1) by the WTO
- exploring opportunities to further raise the threshold for inventive step for patents
- pursuing the steps needed to explicitly allow the manufacture for export of pharmaceuticals in their patent extension period
- working towards a system of eventual publication of clinical trial data for pharmaceuticals in exchange for statutory data protection
- identifying and progressing reforms that would strike a better balance in respect of copyright scope and term.

IPTA's view is that this recommendation is somewhat naïve as the views of the larger IP Offices such as the USA, EPO, Japan, China and Korea being so much larger than IP Australia will tend to prevail over Australia's in an International forum. Further there is no evidence that the specific areas to pursue would be beneficial to the IP system or to Australia even if Australia was able to influence the outcome. The suggestion that Australia should pursue opportunities to raise the threshold for inventive step is somewhat ironic since prior to the raising of the bar legislation Australia's level, of inventive step was recognised as being generally lower than that of the EPO and the USA and in two short years since raising the bar are we now to advise the EPO and USA that their threshold which for many years was higher than Australia's is too low?

Chapter 19: Compliance and enforcement of IP rights**RECOMMENDATION 19.2**

The Australian Government should introduce a specialist IP list in the Federal Circuit Court, encompassing features similar to those of the United Kingdom Intellectual Property Enterprise Court, including limiting trials to two days, caps on costs and damages, and a small claims procedure.

The jurisdiction of the Federal Circuit Court should be expanded so it can hear all IP matters. This would complement current reforms by the Federal Court for management of IP cases within the National Court Framework, which are likely to benefit parties involved in high value IP disputes.

The Federal Circuit Court should be adequately resourced to ensure that any increase in its workload arising from these reforms does not result in longer resolution times.

The Australian Government should assess the costs and benefits of these reforms five years after implementation, also taking into account the progress of the Federal Court's proposed reforms to IP case management.

IPTA notes with interest the Commission's comments that Australia's court based system appears to work well for IP disputes between large firms but SME's have difficulty with high risks and costs. This is primarily the case with patent disputes - trade mark and copyright cases trend to be resolved more quickly and with far less exposure to risks of high costs. Accordingly, we agree that if some aspects of the UK's Intellectual Property Enterprise Court (IPEC) could be introduced into the Australian court system that would be of benefit to smaller litigants, particularly for trade mark litigation.

The Federal Circuit Court (FCC) would appear to be the most attractive venue to introduce these aspects of the IPEC but in order to do so there would need to be the introduction of judges with the necessary IP experience onto the bench of that court. Presently, the FCC is not favoured as a venue for patent disputes (and, indeed, other more complex IP related disputes) ¹⁹ because of the lack of relevant expertise in the court. We stress that IPTA is not confident that such a system would be suitable for more complex patent disputes. Further, if the FCC was seen as a venue for resolving "lesser value IP disputes" then, while there are cost savings on issuing proceedings in that court (as against the Federal Court) there would need to be some limit on costs introduced perhaps by imposing a two day limit on proceedings as is the case with the IPEC. In that way some degree of certainty would be given to litigants about costs, provided that pleadings and interlocutory steps were also subject to time limitations and close management by the court. As discussed above, IPTA does not think the FCC would be a suitable venue for more complex patent disputes. The lessons learnt in the UK from the Patents County Court (PCC) and the IPEC are that patent disputes should be resolved in a venue that commands respect, otherwise the decisions run the risk of being overturned on appeal, as was a common problem with the PCC in the UK. Further while IPTA notes that recent self-initiated reforms of the Federal Court aim to lower costs and this may be a step in the right direction, particularly for trade marks, IPTA doubts that such voluntary reforms will result in the same quantum of significant cost savings for patent litigants that would result from the establishment of a dedicated IP Enterprise court. IPTA is concerned that if there is no dedicated IP Enterprise Court with hard and fast rules and strict limits on recovery of costs and damages, those costs will inevitably blow out, as lawyers will tend to always try to do the best for their clients and push the boundaries. IPTA is therefore disappointed that the Productivity Commission is not recommending the setting up of a Court along the lines of the UK's Intellectual Property Enterprise Court.