

29 October 2020

Australian Government  
Department of Industry, Science,  
Energy and Resources

**Attention:** Professor Raoul Mortley  
**Re:** **Patents accessibility review**

Dear Professor Mortley

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) makes the following submissions in connection with Department of Industry, Science, Energy and Resources' review of the accessibility of patents for small and medium sized entities (SMEs).

## About IPTA

IPTA is a voluntary organisation representing registered patent attorneys, registered trade marks attorneys and student members in the process of qualifying for registration as a patent and/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. Since 24 February 2017 all Australian patent attorneys have become registered as Trans-Tasman patent attorneys, which also enables them to practice before the Intellectual Property Office of New Zealand. In addition to working with foreign applicants to assist them in obtaining and enforcing their intellectual property rights in Australia and New Zealand, IPTA members also work with clients in Australia and New Zealand to assist them in developing strategies for protecting and enforcing their intellectual property rights in Australia, New Zealand and overseas.

## Summary of submissions

IPTA submits that the Government should consider implementing the following measures as means to stimulate access of SMEs to the patent system:

- a new second-tier patent system that provides businesses with a degree of certainty in relation to providing a rapid and affordable option for protecting commercially significant incremental inventions;
- an education program enabling businesses to understand how to:
  - better understand the basics of the IP system;
  - appreciate the value of obtaining professional advice; and
  - exploit IP for commercial gain;
- incentives for protection of intellectual property which ultimately facilitates commercialisation;
- a Court based on the Intellectual Property Enterprise Court (IPEC), which is part of the High Court of England and Wales;

- incentives for the supply of, and access to, capital for successful commercialisation; and
- encouraging and supporting SMEs to engage with qualified IP advisors.

## Introduction

Australian SMEs are the main source of new jobs and growth in the Australian economy (as acknowledged by the Productivity Commission Report on Intellectual Property Arrangements in Australia, 2016) and are therefore major contributors to the Government's jobs and growth agenda. The cornerstone of supporting SMEs involves ensuring that protection of their innovations can proceed in Australia with certainty and confidence.

The Australian patent system review was enacted by an amendment to the *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Act 2020*, as a concession by the Government for the phasing out of the Australian innovation patent system, which was primarily used by Australian SMEs. In other words, accessibility of the patent system to SMEs was not initially a Government consideration in its decision to abolish the innovation patent. However, in recognising that abolishing the second-tier innovation patent system would jeopardise and diminish SMEs' access to the patent system, the current accessibility review was included in the legislation.

The terms of reference for the review include investigating:

- the cost of applications for patents;
- processing times of patents;
- advice provided by the Australian Government with respect to the patent application process;
- awareness of the patent application process;
- the cost and times required to enforce standard patents;
- any other barriers or impediments that prevent Australian businesses filing and obtaining patents; and
- Government programmes to assist Australian SMEs seeking patent protection, including protection overseas.

## The benefits of second-tier patent protection for SME innovation;

In pressing the Government to include this review in the legislation, the Opposition's clear objective appears to have been to identify and act on issues that would improve and strengthen SMEs' access to the patent system. It therefore appears that there is bipartisan support for systems and processes that result in an increase in patent filings by Australian SMEs. This review, therefore, must consider all potential options that would enhance SMEs' access to a system that allows their inventions to be protected. This must responsibly include consideration of a second-tier patent system. This is particularly pertinent as over 50 jurisdictions world-wide offer second-tier patent protection, including China, Germany, Korea, Japan, Spain, Italy and France. This issue squarely falls under the following **terms of reference**:

- the cost of applications for patents;
- the cost and times required to enforce standard patents; and
- "any other barriers or impediments that prevent Australian businesses filing and obtaining patents".

It is accepted that innovation, particularly in the manufacturing space, often occurs incrementally. Incremental innovation involves improvements to existing products to resulting in commercially significant inventions. Such inventions offer substantial benefits to innovating SMEs and the public, provided they are commercialised and brought to market. A concrete example of this is a safer platform ladder invented and commercialised

by Gavin Rundle of the Hartman group, (featured in the following video <https://www.youtube.com/watch?v=GnI-AvV9tsU&t=67s> ) It is unlikely that Australian-invented safer platform ladder would have come to market without second-tier patent protection. The reason is that the standard patent system is not well suited to protecting inventions involving an incremental innovation because there is a great deal of uncertainty whether these types of inventions will meet the patentability threshold of the standard patent system. This is more pertinent given that raising the inventive step threshold is part of the Government's innovation policy agenda. This will, without doubt, mean it will be harder for Australian businesses to protect their intellectual property and therefore reduce the incentive to innovate. Put simply, the current Government policy of removing the option for second-tier patent protection and their plans to increase the inventive step threshold is likely to make it substantially more difficult for SMEs to access the patent system. This will inhibit Australian innovation in businesses that are the recognised major source of new jobs and growth in the Australian economy.

Thus, the current situation appears to conflict with the recent 20-21 budget statement in which the government proposes injecting \$2billion in R&D incentives, \$1billion in new research funding and more money for the CSIRO. Encouraging more R&D, and incentivising small business to invest in innovation through R&D tax incentives are positive strategies. However, this investment is compromised if SMEs cannot access appropriate IP protection to protect the outputs of R&D and utilise it to commercialise relevant products and services.

If this occurs, it will render the following terms of reference for this accessibility review largely irrelevant:

- processing times of patents;
- advice provided by the Australian Government with respect to the patent application process;
- awareness of the patent application process;
- the cost and times required to enforce standard patents;
- any other barriers or impediments that prevent Australian businesses filing and obtaining patents; and
- Government programmes to assist Australian SMEs seeking patent protection, including protection overseas.

Thus, the current path adopted by the Government may have the unfortunate consequence of reducing accessibility to the patent system and make obtaining patent protection more difficult.

The Patent Accessibility Review Discussion Paper (September 2020) (referred to below as the Review) acknowledges that "the use of the patent system is vitally important to the development of Australian intellectual property (IP) for the innovation sector, and the revival of our manufacturing industry". IPTA agrees. It follows that a second-tier patent system provides the obvious and most significant means for enhancing and stimulating SMEs' access to the patent system as well as acting as a "feeder system" for SMEs to use the standard patent system.

In support of IPTA's submission, we refer the patents accessibility review to **Annex A**, John Gibbs submission, made to the Senate Inquiry on the Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019. This submission explains by reference to new statistical information which was not considered by the Productivity Commission why it would be harmful to Australia's economic interests not to have a second-tier patent system.

We also refer the patents accessibility review to the submissions made by many SMEs and industry groups to the Senate Inquiry Senate Inquiry on the Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019.

These submissions, which can be downloaded at this link [https://www.aph.gov.au/Parliamentary Business/Committees/Senate/Economics/ProductivityCommission/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/ProductivityCommission/Submissions) overwhelmingly support the availability of second-tier patent protection for SMEs.

Based on the reasons and evidence provided above and in Annex A, IPTA urges the patents accessibility review to strongly recommend to the Government that a new second-tier patent system be introduced to avoid an inevitable detrimental reduction in patent system access for SMEs resulting from the abolition of the innovation patent system, as evidenced in Annexure A.

### **New second-tier patent system**

IPTA strongly recommends the implementation of a review focused on the *de novo* design of a new second-tier patent system specifically tailored for protection of Australian SME innovations. IPTA acknowledges that under the TRIPS agreement, any new second-tier patent system must be available for all patent applicants filing in Australia. However, a new second-tier patent system could be easily designed to favour Australian SMEs. For example, by not permitting the filing of second-tier divisional applications from standard patent applications, the majority of which are overseas originating.. Moreover, all of the deficiencies of the innovation patent system, which was a flawed hybrid of the former petty patent system, could be readily addressed.

Such a second-tier patent system would give SMEs confidence in protecting their innovations, which would in turn allow greater access to financial investment.

### **Costs associated with patent protection**

The patents accessibility review has been asked to consider costs associated with patent protection. The Review has limited discussion on this point to the official fees set by IP Australia and professional fees of patent attorneys and IP lawyers. This is an unduly narrow interpretation of "costs associated with patent protection" because it fails to take into consideration of the costs of innovating, which are also costs associated with patent protection. These costs can vary significantly depending on patentability threshold. IPTA respectfully requests that the patents accessibility review think more deeply about the issues of costs associated with patenting innovation, rather than narrowly and simplistically in relation to patent prosecution costs.

It is relevant to bear in mind that the development of a commercially significant invention requires a great deal of financial investment, for example to build prototypes and carry out testing to ensure, for example, that Australian standards are met. Second-tier patent protection offers a rapid and affordable way of protecting inventions. Importantly, the advantages of speed and affordability that, for example, a second-tier patent system offers do not simply involve the time and costs of patent prosecution, but rather the time and costs of innovating. This point is fundamental to IPTA's view that a second-tier patent system be made available for Australian innovators. In this regard, developing and commercialising inventions that are likely to satisfy an inventive step threshold for standard patent requires significantly greater time and expense than the development of incremental inventions.

As such, in the absence of a second tier-patent system option, an SME would be required to make multiple successive incremental innovations to a single product to be confident about obtaining protection under the inventive step threshold of a standard patent. Importantly, however, each one of the incremental innovations may require prototypes to be built and tested, each of which is very expensive and, in the absence of a second-tier patent system, would need to be carried out without any protection. A second-tier patent

system on the other hand would permit business owners to protect commercially significant incremental innovation and bring these products to market, affordably and rapidly. This is a beneficial outcome for Australian businesses and the public. These are further reasons why IPTA urges the patents accessibility review to strongly recommend to the Government that a new second-tier patent system be introduced.

IPTA reiterates that, the R&D tax incentive boost made in the 20-21 budget is a step in the right direction. However, as mentioned above, the current policy settings, particularly the lack of a second-tier patent system, do not work together and, in fact, act against each other if the research products are not able to be protected and commercialised. IP protection is an important step in the commercialisation process, and patents are an essential consideration in the suite of IP protection an SME can avail in strategizing its commercial development. We are taking one step forward in incentivising R&D, and many steps back in making the patent system less accessible by removing second tier protection.

### **Patent prosecution times**

IPTA believes that the current patent prosecution time are satisfactory and do not impact SMEs' access to the patent system. However, as indicated above obtaining rapid protection of an incremental invention is important and this is best accomplished under a second-tier patent system. Simply expediting standard patent prosecution is not a viable alternative.

### **Education of SMEs**

IPTA strongly believes that educating SMEs about options under the patent system is crucial for stimulating use of the patent system. This would enable SMEs to understand:

- the basics of the IP system;
- the complexity and value of IP protection;
- available options for exploiting IP for commercial gain; and
- the value of obtaining the strategic advice from an IP professional.

Importantly, IPTA believes that education should not extend to specific details regarding the patent system, which may encourage self-filing and prosecution of patent applications. Statistics show that self-filers consistently fail in obtaining or maintaining patent protection.<sup>1</sup>

We also refer to a report by the International Federation of Intellectual Property Attorneys (FICPI)<sup>2</sup> The FICPI report provides specific evidence of the value that qualified IP professionals bring to the innovation process (see, for example section 14). Conversely, the FICPI report shows that of 50 randomly selected self-filed applications analysed not one of them proceeded to grant (see the discussion of section 15 of the FICPI report [Hoisl-Wagner Report], and the discussion of the data in Table 11, page 27.

Therefore, education of SMEs should be focused on patent system awareness and available options that encourage SMEs to seek advice from IP professionals.

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<sup>1</sup> Patentology 19 February 2017, What IP Australia Does Not Tell You: If You Want a Patent, You Should Hire a Patent Attorney! <https://blog.patentology.com.au/2017/02/what-ip-australia-does-not-tell-you-if.html>

<sup>2</sup> [https://ficpi.org/uploads/files/The\\_IP\\_Practitioner.pdf](https://ficpi.org/uploads/files/The_IP_Practitioner.pdf)

## **Costs of litigation**

One of the points to be considered by the review is whether the high cost of litigation is a deterrent to SMEs pursuing patent protection. Notably, very few patents are litigated and where litigation is initiated, even fewer, are considered in Federal Court Proceedings. A much greater number of patents are used to license IP rights or otherwise commercialise them. Moreover, granted patents act as an effective deterrent, without having to resort to court action. For these reasons, the threat of expensive litigation should not present a significant deterrent to SME patent applicants.

Notwithstanding, the comments above, IPTA believes there is a need in Australia for a Court based on the Intellectual Property Enterprise Court (IPEC), which is part of the High Court of England and Wales.<sup>3</sup> The IPEC implements the following initiatives:

- a cap on the maximum amount of damages and/or account of profits that can be claimed;
- limits on the costs that can be claimed by the successful party;
- limits on the amount and nature of the evidence that can be submitted; and
- limits on the length of the trial.

The implementation of an IPEC-like court in Australia would not only encourage SMEs to pursue and protect their IP rights, but give them the confidence that they could enforce their rights should the need arise. Thus, it would also contribute substantially to the effectiveness of Australia's intellectual property system and stimulate innovation in the SME sector.

## **IP Australia's online portal and the option for SMEs to engage with a case manager**

IPTA has substantial concerns in relation to IP Australia's case manager program, which offers to assist SMEs "at any stage of the application or examination process". This potentially presents a difficulty in relation to the distinction between "educational information" and "advice". Significant problems, that can render a patent vulnerable to revocation, may be encountered by SMEs if they rely on "information" provided by IP Australia as "advice". Furthermore, IPTA believes that there is the potential for conflict when IP Australia employees stray into the area of giving advice. For these reasons, IPTA believes that IP Australia's online portal and the option for SMEs to engage with a case manager, is a step in the wrong direction and sends the incorrect message that SMEs should manage their own IP matters.

## **Other incentives for commercialisation:**

### ***R&D Tax Incentive***

The R&D Tax Incentive is a welcome policy tool and incentivises SME's and large corporates to invest in R&D. However, R&D is only one step in the commercialisation process, the next steps relate to protecting the innovation, using the patent system as a strategic tool

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<sup>3</sup> In an event jointly organised by IPTA and the University of Melbourne Law School, the Seventh Francis Gurry Lecture on Intellectual Property presented in Melbourne on 2 September 2015, Sir Colin Birss presented a lecture in which he explained the success of the IPEC, <https://events.unimelb.edu.au/recordings/183-to-boldly-reform-ip-dispute-resolution-experience-in-the-intellectual>

in its business development, accessing capital to grow etc. The R&D tax incentive refers IP costs as an “ineligible expense”:

- legal expenses not associated with any approved research project, for example, legal expenses for a patent search before undertaking a research project or in taking out a patent after a successful project
- patents and trademarks in marketing a new product or technology, or as a result of R&D activity

This is counterintuitive, because the tax incentive facilitates additional R&D, but deprives access to the next steps of commercialisation. We propose that the R&D tax incentive be amended, or a new incentive scheme be created, to include expenses such as those referenced above.

This will ensure that the policy settings are working with each other to encourage not only increased R&D activity but also to include the next steps of commercialisation.

### **Patent Box**

A patent box is a policy tool that applies a lower rate of corporation tax to any profits made from patented intellectual property (IP) assets. A patent box regime targets the last stage of the innovation lifecycle, namely commercialisation. A number of countries have adopted patent box policies to attract mobile IP income and encourage innovation.

The tax incentive is a popular mechanism in Europe, with different versions currently running in the United Kingdom, Ireland, Belgium, the Netherlands and Spain.

The introduction of a similar scheme in Australia has long been discussed in Australia, with the Chief Economist tasked with investigating such a plan in 2015. This should critically be considered at this stage.

### **Concluding remarks**

IPTA is strongly of the view that innovation in Australia, which is a difficult and fragile process, should be supported by all possible tools, including a second-tier patent system, that balance the needs of all relevant stakeholders. For this reason, IPTA urges the patents accessibility review to make a recommendation for the Government to consider the design of a new second-tier patent system that favours and encourages protection of innovations by Australian SMEs.

IPTA suggests that a new second-tier patent system include:

- a) mandatory examination within, for example, three years of filing;
- b) the term “granted patent” being used to refer to an application that has been through an examination process; and
- c) a patentability threshold that is lower than the current inventive step threshold.
- d) not permitting the filing of second-tier divisional applications from standard patent applications.

Conversely, if Australia chooses to proceed down a path having no second-tier patent option, this will place a significantly greater burden and costs on Australian businesses attempting to protect their intellectual property. This would clearly be detrimental for innovation and businesses that drive growth in the Australian economy.

Commercialisation of innovations is a difficult process, and IPTA is of the opinion that all that is possible should be done to encourage protection of innovations by Australian SMEs.

If the patent accessibility review requires clarification or further information about IPTA's submission, we would be happy to discuss any of the points raised above.

Yours sincerely,

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

**Michael J Caine**

President

Institute of Patent and Trade Mark Attorneys of Australia



## Submission on Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019

*By John Gibbs, Intellectual Property Law Lecturer (Monash University), Legal Practitioner, and Registered Patent Attorney. My academic field of interest is the relationship between patent protection and economic prosperity. Opinions expressed in this paper are my own, and do not reflect the views of any employer or organisation to which I belong.*

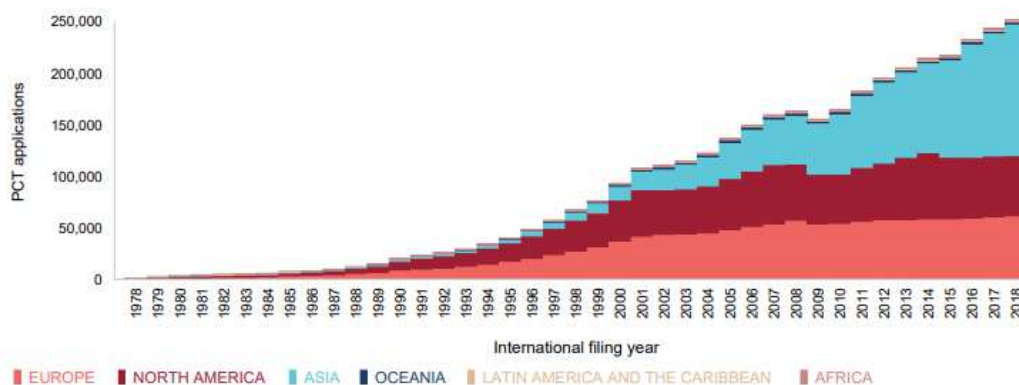
This submission explains by reference to new statistical information which has not been considered by the Productivity Commission why it would be harmful to Australia’s economic interests to abolish the innovation patent.

### Proposition 1: The future prosperity of a country depends not on innovation, but on ownership and control of innovation

In other words, a country benefits when citizens of that country own the intellectual property in wealth-producing innovations, but does not benefit when its citizens do not own the intellectual property in wealth-producing innovations, either because citizens of another country own it or because they did not seek intellectual property protection.

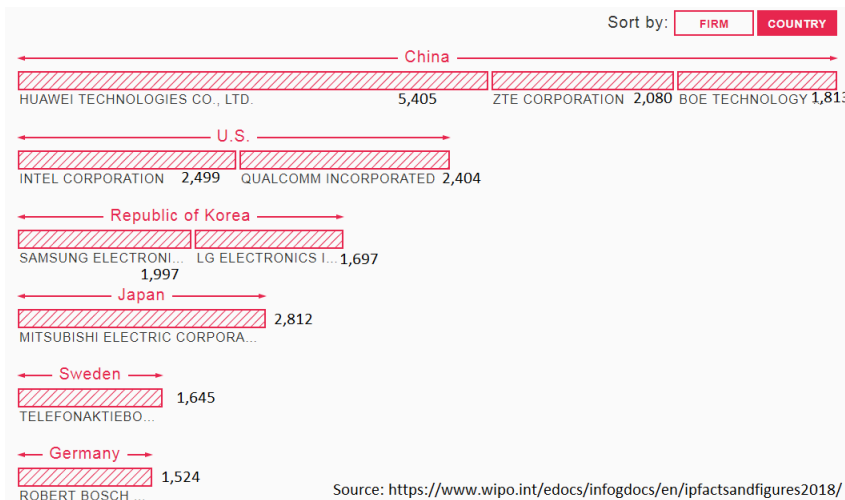
China recognised this some time ago, and has taken active steps to maximise ownership of intellectual property by its citizens. The following chart shows how Asia has over the past 20 years become the dominant owner of international (PCT) patent applications.

**S3. Trends in filings of PCT applications by region, 1978–2018**



Source: WIPO Statistics Database, March 2019.

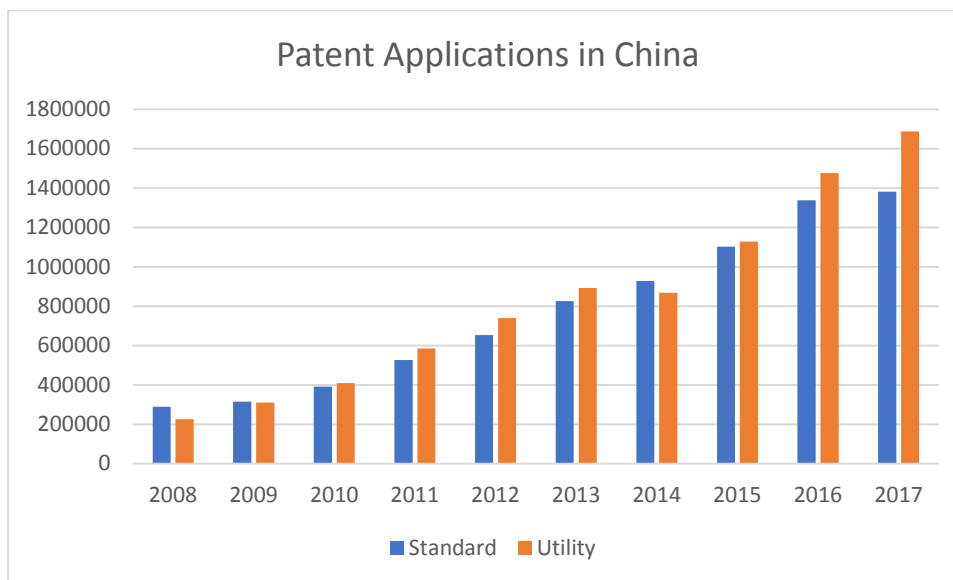
The following chart shows the number of international patent applications filed by each of the top 10 international patent applicants in 2018, grouped by country. Chinese companies dominate, with Huawei having filed almost twice as many international applications as the second highest applicant.



**Proposition 2: China’s dominance in intellectual property ownership has arisen as a result of carefully designed policies, including second-tier intellectual property protection for innovations**

Almost every country in the world offers patents equivalent to Australian standard patents. These are expensive and take a long time to obtain, and last for up to 20 years. Some countries including China and Australia offer a second tier of patent protection, known as utility patents in China and innovation patents in Australia. Second tier patents are cheap and quick to obtain, and last for up to 8 to 10 years.

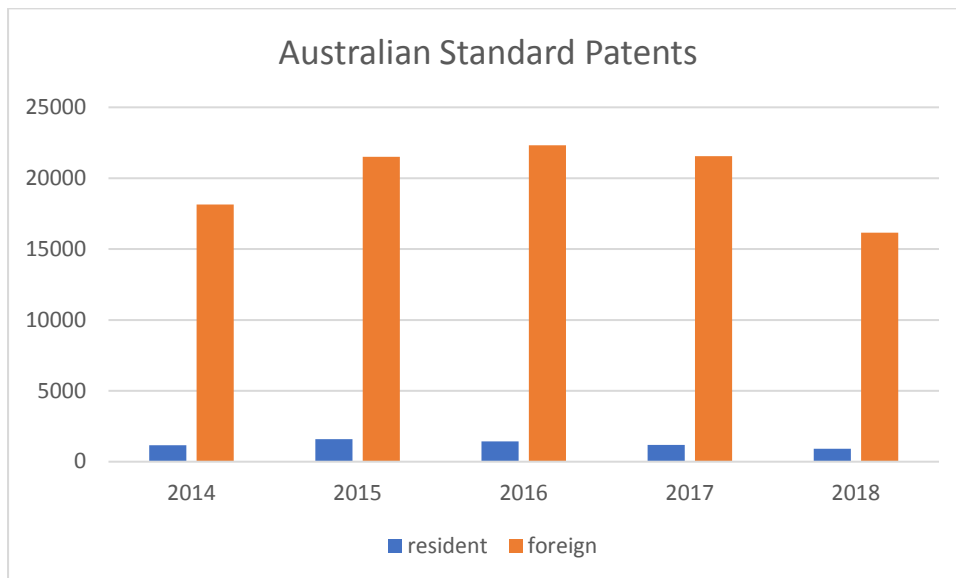
Second tier patent protection favours local applicants, as foreign applicants overwhelmingly use the standard patents system because that is what they are familiar with.



Source: [https://www.wipo.int/ipstats/en/statistics/country\\_profile/profile.jsp?code=CN](https://www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=CN)

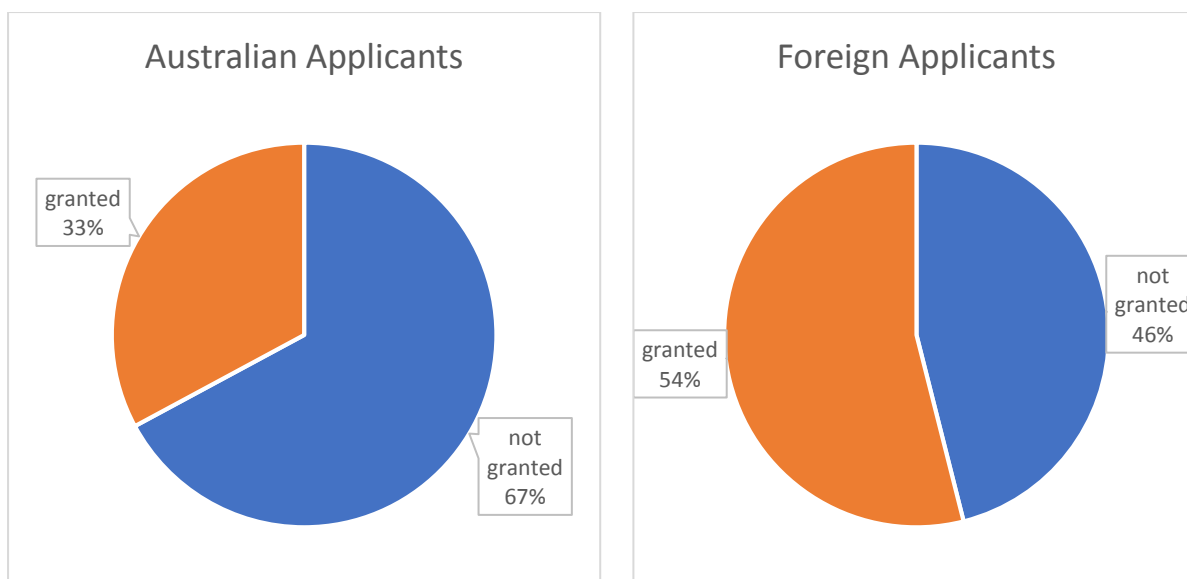
**Proposition 3: Australia’s standard patent system overwhelmingly favours foreign applicants**

The following chart shows the number of standard patents granted in Australia each year to Australian residents, compared with the number granted to foreign applicants. In each year between 93% and 95% of patent grants have been to foreign applicants.



Source: <https://www.ipaustralia.gov.au/ip-report-2018/patents>

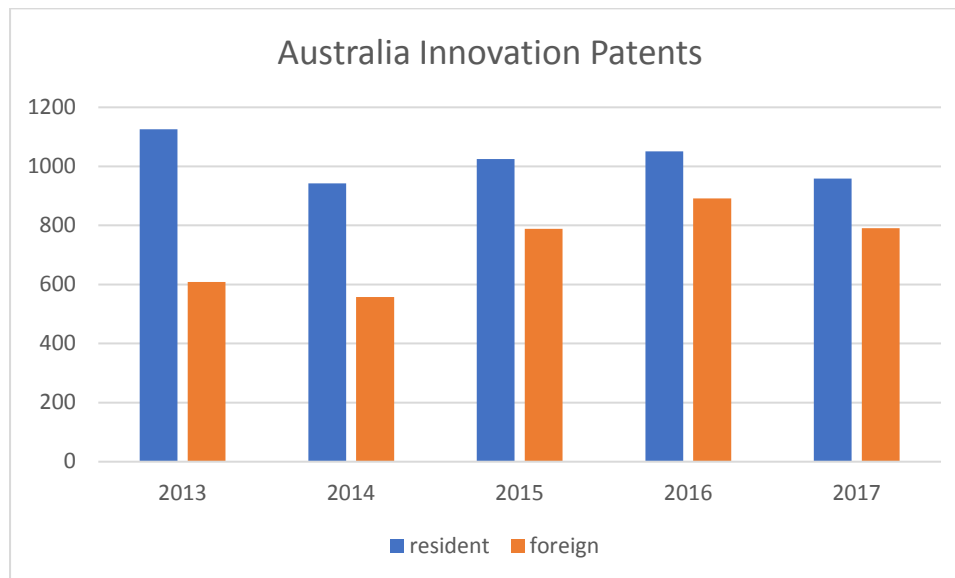
The following charts show that the number of standard patents granted to Australian applicants in 2018 was less than one third of the number of applications made by Australian applicants, whereas the number of standard patents granted to foreign applicants was 54% of the number of applications filed. Standard patent applications filed by foreign applicants in Australia have consistently, year after year, had a success rate more than 50% higher than standard applications filed by Australian applicants.



Source: <https://www.ipaustralia.gov.au/ip-report-2018/patents>

**Proposition 4: Australia’s innovation patent system favours Australian applicants**

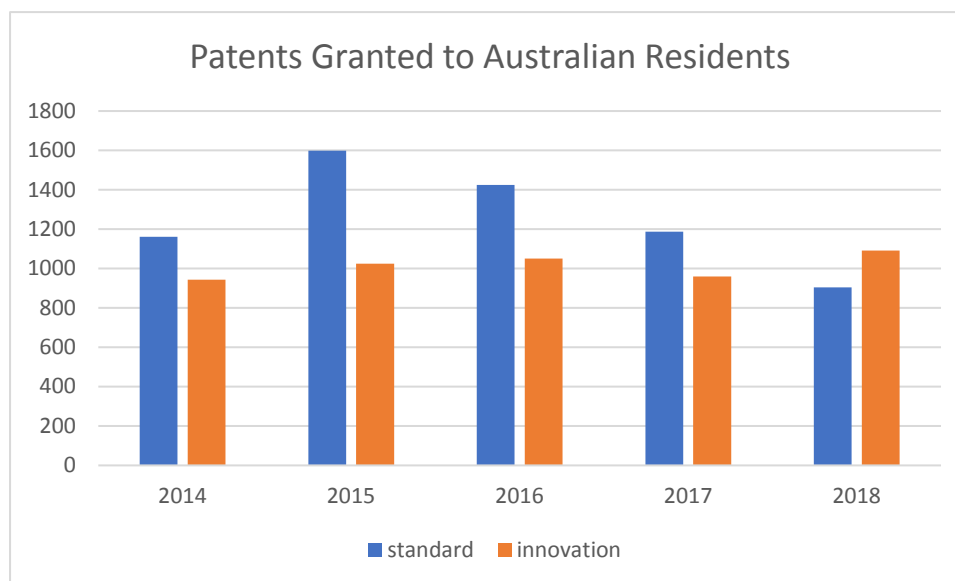
The following chart shows the number of innovation patents granted in Australia each year to Australian residents, compared with the number granted to foreign applicants. In each year the majority of innovation patents have been granted to Australian applicants.



Source: <https://data.gov.au/dataset/intellectual-property-government-open-live-data>

**Proposition 5: If Australia’s innovation patent system were to be abolished, almost half of the patents granted to Australian applicants would be abolished**

The following chart shows the number of standard and innovation patents granted to Australian residents over the past five years.



Sources: <https://www.ipaustralia.gov.au/ip-report-2018/patents> and <https://data.gov.au/dataset/intellectual-property-government-open-live-data> (figure for 2018 is estimated as the government open live data is not up to date)

**Proposition 6: It would be a backward step to make changes which result in higher costs and slower service for Australian applicants.**

The cost of a granted innovation patent (\$180) is less than one sixth of the minimum cost of a standard patent (\$1110). An innovation patent is granted on average within 23 days, one sixtieth of the average time to grant of a standard patent, which is 1,376 days.

Source: <https://data.gov.au/dataset/intellectual-property-government-open-live-data>