Annexure 1
2 October 2015

IP Australia
Mr David Simmons

By Email consultation@ipaustralia.gov.au

Dear Mr Simmons

Innovation Patent Review

We refer to the IP Australia consultation paper of August 2015 (the “Consultation Paper”) regarding ACIP’s recommendation that the Government consider abolition of the Innovation Patent System.

These submissions come jointly from the Institute of Patent and Trade Mark Attorneys of Australia (IPTA) and FICPI Australia.

1.0 IPTA and FICPI Australia

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

FICPI Australia is the National Association of the International Federation of Intellectual Property Attorneys (FICPI). The International Federation of Intellectual Property Attorneys takes its membership from patent and trade mark attorneys in private practice from more than 85 countries. The organisation was founded in 1906. Further details regarding FICPI can be found at www.ficpi.org.

2.0 Innovation Patent System - Policy Objective

As stated in the Consultation Paper, a principal policy objective of the Innovation Patent System is to stimulate innovation in Australian SMEs, and in a manner not possible through the standard patent system.

In June 2014, ACIP issued a report with respect to the Innovation Patent System but was unable to find sufficient empirical evidence to enable an assessment of the effectiveness of the system in meeting this policy objective. Since that time IP Australia has commissioned and published a research paper ‘The Economic Impact of Innovation Patents’ (the
“Economic Report”

This report was used by ACIP in May 2015 in re-assessing its position and in recommending that the Government consider abolishing the system.

In the IP Australia consultation paper it is stated that a conclusion of the Economic Report was ‘that the Innovation Patent System is failing to incentivise SMEs to innovate’. However, this is not a conclusion of the Economic Report. In the report it is stated:

‘We cannot, on the available evidence, say whether the Innovation Patent System incentivised R&D expenditure’. ¹

This key question remains unanswered and both IPTA and FICPI Australia consider it inappropriate for a recommendation to be made to Government for the abolition of the Innovation Patent System based on a report which does not provide any new economic data on this key issue.

3.0 Importance of Innovation to the Australian Economy

Innovation is the key to Australia’s medium and long-term economic security.² The Innovation Patent System provides a much needed low cost entry point for the protection of new innovations in Australia. Both IPTA and FICPI Australia consider the Innovation Patent System to be an important component in a suite of laws and policy settings which together encourage innovation in this country. It is considered simplistic to formulate policy with respect to innovation (and the Innovation Patent System in particular) without considering how each aspect of the current laws work together in incentivising innovation. The Economic Report makes no attempt to do this.

We are encouraged that the Government is committed to providing the correct policy settings to encourage innovation (see for example Prime Minister Turnbull’s statement of 19 June 2015 that “Government must lead the way with clear and detailed education, innovation and technology policies”). Both IPTA and FICPI Australia consider that the abolition of the Innovation Patent System with nothing to take its place would act as a brake on innovation and that this would be felt most acutely in the Australian manufacturing sector³.

4.0 IPTA and FICPI Australia Support the Innovation Patent System

Both IPTA and FICPI Australia urge the Government to retain the Innovation Patent System and note:

i) a second tier system for the protection of inventions has been a key component of the intellectual property system in Australia since the introduction of the petty patent system in 1979.

ii) such a system enables SMEs and individuals to secure intellectual property rights more quickly and at a lower cost than the standard patent system.

iii) second level innovation protection systems are operated in more than 55 countries around the world including major trading partners such as Germany, Japan and China.

iv) if the innovation patent system was abolished with nothing set up in its place, the outcome would be either:

¹ Economic Report, Section 2.2, p.11
² Australian Innovation System Report 2014, pages 16-29
³ Economic Report, Section 2.2, p.11 (where it is noted that for the Australian manufacturing industry, the innovation patent system is used as a way to protect successful R&D expenditure).
a) higher costs for Australian SMEs in protecting their inventions through the standard patent system; or

b) developments going unprotected. (or not being developed in the first place, in the absence of innovation protection)

v) SMEs in Australia use the system successfully. In the last 3 years more than one third of all reported first instance patent infringement decisions have been based on innovation patent rights and in the great majority of those, the patentee was an Australian SME.

vi) The ACIP recommendation is based on the Economic Report. We do not consider that the Economic Report adequately addresses the relevant issues. In particular, the report does not:

a) attribute any value to the Australian national economy for the publication of new innovations and developments, or the availability of new commercial products and services resulting from such new innovations and developments. The rationale for any patent system is that government confers a limited monopoly right in exchange for the disclosure of new developments and inventions which might otherwise be kept secret. The abolition of the innovation patent system would result in several innovations being retained in confidence rather than being published, or never being developed in the first place in the absence of the incentive provided by the innovation patent system to innovate.

b) the Economic Report significantly under-estimates the private value of innovation patents to patent applicants. The Economic Report indicates that the value of innovation patents to applicants per year is in the order of $10-40 million. Independent economic analysis using the results of the survey conducted by Verve Economics estimates the private value of the Innovation Patent System to patent applicants to be no less than three times these figures and probably more. **Annexure 1** to these submissions is a short paper commissioned by both IPTA and FICPI Australia by Professor Stefan Wagner of ESMT European School of Management Technology, Berlin with respect to the estimates outlined in the Economic Report. The Economic Report also totally disregards the private value of underlying inventions that are the subject of innovation patents but which would never have been developed in the absence of the innovation patent system.

c) The Economic Report estimates regulatory costs in securing innovation patent rights each year to be in the order of $11 million. We consider this figure to be significantly inflated. Based on our research, a more realistic estimate is that ‘regulatory costs’ associated with the system are closer to $4.3 million per year.

d) The Economic Report makes the misleading claim that 95% of the regulatory cost of the system is borne by SMEs and private inventors. However, this is based on the assumptions that “regulatory costs” equal application and maintenance costs and that these costs are about the same for all applicants, and that 95% of the applications filed are by SMEs and private inventors. More accurate analysis (detailed below) reveals that application costs borne by large entities are on average
more than four times as much as application costs borne by private inventors.

e) The Economic Report makes the misleading claim that large firms benefit disproportionately from the Innovation Patent System, implying that small firms pay for it while large firms reap the benefits. If judged by published Federal Court decisions, SMEs are by far the biggest beneficiaries of the system.

FICPI has long supported a second tier patent right. Annexure 2 is a copy of a FICPI report issued earlier in 2015 in which the benefits of such rights are identified.

5.0 The Economic Report

The Economic Report does not incorporate a list of key findings. A number of conclusions are set out in the Executive Summary of the paper and we address these in turn:

Statement 1. The evidence shows that firms who file innovation patents are less likely to participate in the standard patent system afterwards.

ACIP in its prepared statement of May 2015 interpreted this as meaning that “Australian SMEs are less likely to use the patent system after filing an innovation patent than a company that has not previously filed an innovation patent.” This cannot possibly be true. According to the Australian Bureau of Statistics, there are 2.1 million businesses in Australia, of which perhaps 20,000 have filed a patent application. Thus the likelihood of a company which has not previously filed an innovation patent using the patent system is no more than about 1%. Based on the very limited information available (see below), the average SME innovation patent applicant files 0.43 more innovation patent applications after its first application.

Statement 1 must therefore have been intended to mean that innovation patent applicants are less likely to file further Australian patent applications than are standard patent applicants. The most obvious way to test this is to look at the average number of patent applications by innovation patent applicants.

Unfortunately the IP Government Open Data tables on which the economic research is said to be based are too unreliable and incomplete to be able to answer this simple question. The data from File 102 of the IPGOD Data Resource, 2015 (the only table which provides applicant names) indicates that, in the years 2001 to 2014, 14,101 innovation patent applications were filed by Australian applicants. However, for 8,417 cases (60% of them), the applicant’s name is given as “NON-ENTITY 94669” (with the number different for each case). Automated analysis would therefore assume that every case where the applicant was unidentified would have been filed by a different applicant, biasing the results towards the conclusion that innovation patent applicants file very few applications.

<table>
<thead>
<tr>
<th>Applications by Australian Applicants</th>
<th>Unidentified Applicant</th>
<th>Identified Applicant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>8417</td>
<td>5684</td>
</tr>
<tr>
<td>Standard</td>
<td>12857</td>
<td>27074</td>
</tr>
</tbody>
</table>

Table 1
It is doubtful therefore whether it is possible to get any meaningful information out of the IP Government Open Data. Using the only available evidence, which is for the minority of cases where the applicant is identified, the following information is obtained after limiting the data to complete innovation patent applications filed by Australian applicants and excluding all cases where the applicant is identified as a big entity:

<table>
<thead>
<tr>
<th></th>
<th>All SME/Individual Applications</th>
<th>Applications with Identified Applicants</th>
<th>Discrete Applicants</th>
<th>Average per Applicant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>13242</td>
<td>4825</td>
<td>3364</td>
<td>1.43</td>
</tr>
</tbody>
</table>

Table 2

The IP Government Open Data does not have any applicant information relating to provisional applications, although more provisional applications are filed by Australian applicants than all other types of Australian applications combined. File 101 of the IPGOD 2015 Data Resource, which does not contain any information before 2003, reveals the following numbers of applications made from 2003 to 2014 inclusive by Australian applicants, excluding those made by applicants identified as big entities:

<table>
<thead>
<tr>
<th></th>
<th>Innovation</th>
<th>National Phase</th>
<th>Provisional</th>
<th>Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications</td>
<td>11671</td>
<td>8454</td>
<td>73324</td>
<td>12793</td>
</tr>
</tbody>
</table>

Table 3

As is apparent from these figures, a significant majority of provisional applications do not proceed further by way of filing an associated innovation, standard or PCT application. While nearly all Australian-originating standard patents claim priority from a provisional application, only about 15% of non-divisional innovation patents claim priority from a provisional application (based on the further research described under Statement 2 below). Accordingly, most Australian innovation patent applicants are using the innovation patent system as a substitute for the provisional application/standard patent route, and we should expect to see a high rate of abandonment of innovation patents similar to that of provisional applications.

**Conclusion:** Statement 1 is misleading. The data available cannot validly be interpreted as an indication that the innovation patent system is discouraging SMEs from applying for patents.

**Statement 2. The great majority of Australian SMEs and private inventors appear to gain little benefit from the system.**

This statement appears to relate to section 3.4 of the report, in which it is asserted that “the decision to certify, and the decision to pay the renewal fee to maintain patents is a proxy for the value of the patent to the applicant”.

The conclusion stated in this statement is not correct. In fact, the lack of a requirement to certify an innovation patent has always been promoted as one of the advantages of the system. Unless there is a potential infringement, the patentee need not go to the expense and effort of certification. If no potential infringement ever arises, the patentee never needs to seek certification. Many patentees do not expend the time and money to seek certification unnecessarily. Indeed there are disadvantages in seeking certification before needing to do so, as deferment leaves greater flexibility in shaping the final claim set. For example, any
amendment required to the claims to distinguish the invention from prior art can be done with knowledge of the potential infringement.

Thus there is no logical connection between patent value and seeking certification, unless one were to argue that a patent's value is proportionate to the extent to which it gets infringed (in this regard, see the reference under Statement 4 below to further research into patents which have actually been enforced). Further, many very valuable patents are never infringed. Many standard patents protecting very valuable products are never infringed as third parties recognise the patents to be valid and enforceable (and usually not because they have been examined and granted but as a result of private analysis).

With regard to the fact that the majority of innovation patents expire through failure to pay renewal fees, that is simply the nature of patents. As indicated in respect of Statement 1 above, most Australian innovation patent applicants are using the innovation patent system as an alternative to the provisional application/standard patent route, rather than as an add-on. A significant majority of provisional applications go no further than their initial 12-month term. The first patent application for an invention gives the inventor time to consider the viability of the invention before deciding whether to incur further expense in Australia or to invest in patent applications in other countries. In the majority of cases, the applicant presumably decides that the further expense is not warranted. Thus a high rate of abandonment of innovation patents, particularly by individual inventor-applicants, is to be expected.

In any event, standard patents also have a high rate of early abandonment, with the majority being abandoned less than half way through their term.

The following chart shows that the median term for all standard patents and patent applications (the point by which more than 50% of patents/applications have been abandoned) is less than 8 years\(^4\). In other words, more than 50% of standard patents are abandoned before the 8-year term of an innovation patent would have expired.

![Chart showing median term for standard patents and patent applications](chart.png)

This effect becomes far more pronounced where the applicant/owner is an Australian SME or individual. The median term for standard patents and patent applications owned by Australian SMEs and individuals is less than 4 years, and more than 70% of such patents are abandoned in less than 8 years.

\(^4\) The tiny number of patents which have their term extended beyond 20 years have been treated as if their term was 20 years for the purpose of this analysis.
The fact that a patent is abandoned before the end of its term does not mean that it was of no value to the applicant at the time of filing. Patents are by their very nature contingent rights, which may in the future be highly valuable or worthless, depending on facts which at the time are unknown. Before filing a patent application, the applicant makes a rational decision that the chance of future value offered by the application is worth the application cost.

In section 4 of the Economic Report, an attempt is made to define the costs and benefits of the Innovation Patent System. Although the appendices to the report give considerable details of calculations undertaken, they do not reveal the specific figures used for determining costs; nonetheless these can be estimated by looking at Figures 2 and 3 and Table 6 in the report. Figure 2 shows that approximately 1200 innovation patent applications are filed per year by Australian applicants. Figure 3 shows that 6% of these are filed by large firms, 31% by SMEs and 63% by private inventors. Table 6 represents that the annual total “regulatory costs” (which excludes government fees) of the innovation patent system are $11,139,000, with filing costs comprising 91% of the total regulatory costs, and the other regulatory costs, being renewal, examination and opposition costs, comprising only about 9% of the total regulatory costs. Table 6 also represents that the annual filing regulatory costs are $561,000 for large firms, $3.18 million for SMEs and $6.359 million for private inventors.

<table>
<thead>
<tr>
<th></th>
<th>Large Firms</th>
<th>SMEs</th>
<th>Private Inventors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percentage of Applications</strong></td>
<td>6</td>
<td>31</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td><strong>Number of Applications</strong></td>
<td>72</td>
<td>372</td>
<td>756</td>
<td>1200</td>
</tr>
<tr>
<td><strong>Filing Regulatory Costs</strong></td>
<td>$561,000</td>
<td>$3,180,000</td>
<td>$6,359,000</td>
<td>$10,100,000</td>
</tr>
<tr>
<td><strong>Cost per Application</strong></td>
<td>$7,792</td>
<td>$8,548</td>
<td>$8,411</td>
<td>$8,417</td>
</tr>
</tbody>
</table>

Table 4

Whilst it is unstated in the Economic Report, these figures represent the surprising assumption that private inventors and SMEs, the majority of whom are not represented by patent attorneys, incur more costs in filing their innovation patent applications than do large firms, which are almost always represented by patent attorneys.
A review of pages 86 to 88 of the appendices to the Economic Report reveals the assumptions that have been adopted in calculating the “regulatory costs”. In particular, it is assumed that every unrepresented private inventor has spent $76.48 per hour for 37.5 hours employing a “generic professional employee” to meet the regulatory requirements in respect of each innovation patent application. The table also indicates that the number of applications used for the filing cost calculation was between 1788 and 2054, which seems to be a mistake, given that the number should have been around 1200.

The most obvious problem with the assumptions underlying this line of reasoning is that different applicants clearly put differing amounts of effort into their patent applications. The applicant who files a patent specification consisting of 3 pages has clearly put less effort into the exercise than an applicant who files a specification of 100 pages.

To obtain a more realistic estimation of the “regulatory costs” associated with filing innovation patent applications, research was conducted on the first 3000 innovation patent applications filed during 2015. Of these, 221 applications were by Australian applicants. The patent specification for each application was retrieved manually and reviewed, and this was used to estimate the number of hours spent preparing and filing the application. For self-filed applications, 3 hours was allowed for filing the application plus 3 hours per page of text in the specification at the hourly rates used in the Economic Report. For attorney-filed applications, an attorney fee ranging from $3500 for a 3-page specification to $8500 for a 20-page specification was allowed, plus between 6 and 12 hours of the applicant’s time. Applicants were manually classified as individuals, SMEs and large entities. For divisional applications, a fixed attorney fee of $3000 was allowed plus 3 hours of the applicant’s time.

The results were as follows:

<table>
<thead>
<tr>
<th>Applications</th>
<th>Large</th>
<th>SME</th>
<th>Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-filed</td>
<td>0</td>
<td>39</td>
<td>76</td>
</tr>
<tr>
<td>Attorney-filed</td>
<td>20</td>
<td>57</td>
<td>29</td>
</tr>
<tr>
<td>Divisional</td>
<td>10</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>% divisionals</td>
<td>50</td>
<td>14.6</td>
<td>7.6</td>
</tr>
<tr>
<td>Cost per Divisional application</td>
<td>$3,230</td>
<td>$3,230</td>
<td>$3,230</td>
</tr>
<tr>
<td>Non-Divisionals</td>
<td>10</td>
<td>82</td>
<td>97</td>
</tr>
<tr>
<td>Cost per Non-Divisional application</td>
<td>$7,600</td>
<td>$4,150</td>
<td>$1,832</td>
</tr>
</tbody>
</table>

Table 5

When these calculations are applied back into Table 6 of the Economic Report, the following results (per annum) are obtained:

<table>
<thead>
<tr>
<th>Percentage of Applications (from the Economic Report)</th>
<th>Large Firms</th>
<th>SMEs</th>
<th>Private Inventors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Applications</td>
<td>72</td>
<td>372</td>
<td>756</td>
<td>1,200</td>
</tr>
<tr>
<td>Est Number Divisionals</td>
<td>36</td>
<td>54</td>
<td>57</td>
<td>147</td>
</tr>
<tr>
<td>Cost per Divisional</td>
<td>$3,230</td>
<td>$3,230</td>
<td>$3,230</td>
<td>$3,230</td>
</tr>
<tr>
<td>Total for Divisionals</td>
<td>$116,280</td>
<td>$174,420</td>
<td>$184,110</td>
<td>$474,810</td>
</tr>
<tr>
<td>Est Number Non-</td>
<td>36</td>
<td>318</td>
<td>699</td>
<td>1,053</td>
</tr>
<tr>
<td>Divisionals</td>
<td>Cost per Application</td>
<td>Total for Non-divisionals</td>
<td>Filing Regulatory Costs</td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------------------</td>
<td>---------------------------</td>
<td>-------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$7,600</td>
<td>$273,600</td>
<td>$389,880</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$4,150</td>
<td>$1,319,700</td>
<td>$1,494,120</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,832</td>
<td>$1,280,568</td>
<td>$1,464,678</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$2,729</td>
<td>$2,873,868</td>
<td>$3,348,678</td>
<td></td>
</tr>
</tbody>
</table>

Table 6

Thus, according to more realistic assumptions, the total filing ‘regulatory costs’ associated with the innovation patent system are around $3.3 million per annum, or about one third of what is estimated in the Economic Report. Even if the values for the other regulatory costs (renewal, examination and opposition) set out in the Economic Report are accepted without question, the total annual regulatory costs of the system would only be about $4.3 million, as opposed to about $11.1 million as estimated in the Economic Report.

Whilst the total renewal, examination and opposition costs has not been analysed for this submission, a simple analysis shows that the approach taken in the Economic Report to the allocation of renewal, examination and opposition costs between large firms, SMEs and private investors is fundamentally flawed. Surprisingly, Table 6 of the Economic Report allocates renewal, examination and opposition regulatory costs between large firms, SMEs and private inventors on the same basis as the allocation of filing costs, based solely on the number of innovation patent applications filed by each of the three sectors. No consideration is given to which applications are renewed, subject to certification examination or opposed. That is, Table 6 assumes that all applications are subject to the same renewal, examination and opposition costs. This is even in light of the findings in section 3.3 of the Economic Report that large firms have a propensity to renew and certify their innovation patents, whilst SMEs and private inventors have a much greater propensity not to renew or certify their innovation patents. The regulatory costs associated with renewal and certification examination would thus clearly be borne primarily by large firms, rather than SMEs and private inventors as set out in Table 6. Similarly, it is expected that large firms would also have a greater tendency to be involved in opposition proceedings, and to engage professional services of patent attorneys in prosecuting such opposition proceedings, such that the opposition regulatory costs would also be largely borne by large firms.

Referring now to the report’s calculation of the benefits of the innovation patent system, the only available data was from a survey conducted by Verve Economics. The survey had asked innovation patent owners to estimate the value of their patents, in the ranges less than $1000, $1000 to $10,000, $10,001 to $100,000, $100,001 to $1,000,000, and more than $1,000,000.

Some 487 innovation patent owners responded, with 29% of respondents valuing their innovation patent at between $10,000 and $100,000, 35% valuing it between $100,001 and $1 million, and 25% valuing it at more than $1 million. There was no upper boundary, but three respondents did estimate values of $10 million, $3 million and $4 million respectively.

The Economic Report analysis involved the application of a number of deductions to determine that the “upper limit” of the total annual value of the innovation patent system to applicants as a whole is $40 million. These deductions included:

- an assumption that the patents valued by respondents to the survey at over $1 million all have a value of exactly $1 million;
- an assumption that the mid-range results are overestimated by 20%;
- an assumption that only about 8.3 to 12.8% of the value of a patented invention relates to the patent and the other 90% relates to the underlying invention
The major difficulty is that there is no sound basis for these deductions, yet they result in the confident pronouncement that “it is likely that the system is a net cost to most of the SMEs that use it”. As the calculations in Appendix 4.2 of the Economic Report indicate, the methodology has a severe impact on reliability. What the report does not admit is the very large size of the impact on reliability. IPTA and FICPI Australia commissioned Professor Stefan Wagner of the ESMT – Economic School of Management Technology in Berlin to review the methodology used in the Economic Report on this issue. Professor Wagner’s report is Annexure 1 to these submissions. Importantly, Professor Wagner identifies that the calculations used in the Economic Report incorrectly assume that the Arora patent premiums are conditioned on patent certification. This mistake results in an estimation which is low by at least a factor of 3. This mistake has also been confirmed to IPTA and FICPI Australia by Professor Marco Ceccagnoli, the lead author of the Arora paper, who has advised that the patent premium is conditional on applying for a patent (not grant or certification).

Even if the assumption that 90% of the value of a patented invention relates to the underlying invention is accepted, this value of underlying inventions should not be disregarded as has been done in the case in the Economic Report. The Economic Report assumes that all patented innovations would have been developed even in the absence of the innovation patent system. This simply cannot be the case. As acknowledged in the Economic Report, a key objective of the innovation patent system is to encourage innovation by Australian SMEs, and in fact the key objective of patent systems in general is to encourage innovation. The Economic Report does not seek to assess whether in fact this policy objective is met by considering whether the same level of innovation would exist in the absence of the innovation patent system. One must assume that the innovation patent system is in fact at least partially meeting its objective and that not all innovations that are the subject of innovation patent protection would necessarily have been developed in the absence of the incentive provided by the innovation patent system. Accordingly, it can only be assumed that a proportion of innovations that are the subject of innovation patent protection would not have been developed in the absence of the innovation patent system and that, accordingly, the assumed 90% value of such patented innovations said to relate to the underlying invention would never have been fully realised. This potential loss in underlying invention value in the absence of an innovation patent system must be considered to form part of the value of the innovation patent system to patent applicants, yet has inexplicably been disregarded in the Economic Report.

The Economic Report indicates that the total annual value of the innovation patent system to applicants as a whole is between $10 million and $40 million, as compared with a regulatory cost to applicants of more than $10 million. More accurate analysis of the costs and benefits shows an annual cost of around $3.5 million and annual benefits of well over $100 million, even when the annual benefits are solely limited to patent premium value to patent applicants, disregarding the value associated with underlying inventions that would not otherwise have been developed without the innovation patent system.

**Conclusion**: When the underlying assumptions of the report are examined carefully, Statement 2 is strongly contradicted by the evidence.

**Statement 3. Three quarters of these applicants file one innovation patent and then never file another innovation or standard patent again.**

It is not clear whether the data underlying this assertion was derived from the IP Government Open Data, in which case the data is too unreliable to reach a conclusion, or from more reliable data not available to the public. In any event, as indicated above in relation to Statements 1 and 2, this is an entirely expected course of action for innovation patent applicants. Further, it is not uncommon for a first application to be filed in an individual’s name. If successful, that applicant is likely to incorporate and file new Innovation Patent
applications or standard patent applications in the name of the new corporate entity. The Economic Report does not recognise this common commercial practice.

We believe that a more accurate conclusion to be drawn from this data is that applicants who are otherwise priced out of filing patent applications are being attracted to the innovation patent system – exactly what the innovation patent system was established to achieve.

Statement 4. Only 23 SMEs have become moderate users of the innovation patent system, filing at least 5 innovation patents, with at least one enforceable right, and entering the patent system via an application for an innovation patent. The average SME or private inventor files once and never again (74%) does not receive any enforceable right (83%), and lets their patent expire early because they see its value at less than the $110-$220 cost of renewal (78%).

It is not clear why the authors of the Economic Report chose these criteria for determining what constitutes a “moderate user of the innovation patent system”. Assuming the data is correct, there does not appear to be anything surprising about it.

The report’s notion of “enforceable right” is misleading. The very nature of patent rights is that they are contingent rights, rather than absolute rights. While the process of examination may establish that some patent applications have no valid claims, it can never establish that a patent has valid and enforceable claims.

Unfortunately the IP Government Data relating to Innovation Patents incorrectly lists the status of most innovation patents revoked following examination as “LAPSED”, rather than “REVOKED”. However, from the available data it appears that approximately three quarters of innovation patents undergoing examination become certified and one quarter get revoked. Thus the process of examination and certification is not one of turning something unenforceable into an enforceable right, but merely a process of filtering out some obviously invalid patents.

The enforceability of a patent is determined by a court. Further research was conducted to determine the extent to which innovation patents have been the subject of Federal Court enforcement proceedings in recent years. A list of all Federal Court enforcement cases with a first-instance judgement issued between 1 January 2012 and 1 July 2015 was compiled. There were 34 cases on the list, of which 14 (41%) related to innovation patents and 20 related to standard patents only. 11 of the standard patent cases related to pharmaceutical litigation by major international drug companies, so if they are disregarded a majority of all general patent litigation related to innovation patents. 13 out of the 14 innovation patent cases related to patents owned by Australian companies, and in nearly every case the patent owner appears to have been an Australian SME.

If the value of a patent is ultimately determined by it becoming the subject of enforcement proceedings, the reported Federal Court cases from the past 3.5 years suggest that the innovation patent system is in fact more valuable to Australian SME patentees than the standard patent system.

<table>
<thead>
<tr>
<th></th>
<th>Total Litigated</th>
<th>Foreign Owner</th>
<th>Large Australian</th>
<th>SME Australian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Patents</td>
<td>20</td>
<td>13</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Innovation Patents</td>
<td>14</td>
<td>1</td>
<td>2</td>
<td>11</td>
</tr>
</tbody>
</table>

Table 8
As the above chart indicates, the standard patent is overwhelmingly the tool of choice of Foreign patent owners for enforcement proceedings in Australia, whereas the innovation patent is the tool of choice for Australian patent owners.

**Conclusion:** While the IP Government Open Data is too incomplete to determine whether Statement 4 is correct, recent Federal Court decisions suggest that innovation patents provide more enforceable rights for Australian patent owners than do standard patents.

Statement 5. The evidence shows that innovation patents have some positive effects, but in the one area of impact, firm survival, standard patents are found to have a bigger positive effect, and there is no effect from certifying innovation patents.

The IP Government Open Data is too incomplete to determine whether Statement 5 is correct.

Statement 6. Innovation patents impose a regulatory cost on Australian SMEs and private inventors of over $10 million per year, equating to nearly 95% of the regulatory cost of the system. The maximum private value of the innovation patent system as a whole was calculated to be in the low tens of millions per annum.

As discussed in detail with reference to Statement 2 above, the regulatory cost estimated by the report is about three times the amount obtained by using more accurate assumptions, while the private value of the innovation patent system estimated by the report is very many times lower than what the data used actually suggests.

The suggestion that Australian SMEs and private inventors have “imposed” on them 95% of the regulatory cost of the system is not borne out by the data.

The data calculated with reference to Statement 2 above gives the following more accurate figures for filing regulatory costs borne by large firms, SMEs and private inventors respectively:

<table>
<thead>
<tr>
<th></th>
<th>Large Firms</th>
<th>SMEs</th>
<th>Private Inventors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Filing Regulatory Costs</strong></td>
<td>389880</td>
<td>1494120</td>
<td>1464678</td>
<td>3348678</td>
</tr>
<tr>
<td><strong>Percentage</strong></td>
<td>11.7</td>
<td>44.6</td>
<td>43.7</td>
<td>100</td>
</tr>
<tr>
<td><strong>Percentage of Innovation Patents Granted</strong></td>
<td>6</td>
<td>31</td>
<td>63</td>
<td>100</td>
</tr>
</tbody>
</table>

Thus a more accurate calculation reveals that large firms pay 11.7% of the application costs for innovation patents but receive only 6% of the granted innovation patents, whereas private inventors receive 63% of granted innovation patents after bearing only 43.7% of the cost.

As discussed with reference to Statement 2 above, the regulatory costs associated with actions other than filing (renewal, examination and opposition) are borne by large firms to a more significant degree than those represented in the Economic Report.

**Conclusion:** When the underlying assumptions of the report are examined carefully, Statement 6 is strongly contradicted by the evidence.

Statement 7. Large firms tend to obtain the majority of this value from their innovation patents, followed by SMEs and private inventors. This highlights that the costs and
benefits are not accruing evenly across firms.

As discussed above with regard to Statement 6, this statement is not supported by a more detailed consideration of the evidence. The following table compares the relative percentages of regulatory costs incurred by large firms, SMEs and private inventors with the relative percentages of innovation patents granted and innovation patents enforced according to Federal Court decisions issued between January 2012 and June 2015. Private inventors will almost always have formed an appropriate legal entity before undertaking litigation, so the figure for percentage of innovation patents enforced by SMEs should be regarded as a combination of the figures for SMEs and private inventors.

<table>
<thead>
<tr>
<th></th>
<th>Large Firms</th>
<th>SMEs</th>
<th>Private Inventors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of regulatory costs incurred</td>
<td>11.7</td>
<td>44.6</td>
<td>43.7</td>
<td>100</td>
</tr>
<tr>
<td>Percentage of innovation patents granted</td>
<td>6</td>
<td>31</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td>Percentage of innovation patents enforced</td>
<td>15</td>
<td>85</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 10

As the table indicates, there is no statistically significant difference between the percentage of regulatory costs incurred and the percentage of innovation patents enforced by large firms as compared with SMEs and private inventors.

Unsurprisingly, this reflects that the amount invested into an innovation patent by an applicant is on average proportional to the value of that patent, and it is largely irrelevant whether the applicant is characterised as a large firm, and SME or a private inventor.

Conclusion: When the underlying assumptions of the report are examined carefully, Statement 7 is not supported by the evidence.

Statement 8. The low levels of repeated use by SMEs suggest that the innovation patent is not fulfilling its policy goal of providing an incentive for Australian SMEs to innovate, and the evidence shows a reduced likelihood of patenting after participating in the innovation patent system.

The IP Government Open Data is too incomplete to determine whether there is in fact a “low level of repeated use by SMEs”. In any event it is unclear why the level of repeated use of the system would be at all relevant to the question of whether the innovation patent is providing an incentive for Australian SMEs to innovate. Single applications by a number of different applicants might indeed suggest that the innovation patent system is providing an excellent incentive for Australian SMEs to innovate.

The suggestion that “the evidence shows a reduced likelihood of patenting after participating in the innovation patent system” is incomprehensible without knowing what the innovation patent system is being compared to. The IP Government Open Data is too incomplete to enable verification of any such comparison. The comparison seems unlikely to be true if innovation patents are being compared with provisional applications, because, as discussed above in relation to Statement 1, a significant majority of provisional applications do not proceed any further. If innovation patents are being compared with standard patents, the comparison may well be true, but almost every Australian-owned standard patent application claims priority from a provisional application and is therefore not the first application filed by the applicant.
The comparison clearly is not true if innovation patent applicants are being compared with people who have never filed a patent application. As described above with regard to Statement 1, the likelihood of a business which has never previously filed a patent application participating in the patent system is about 1 in 1,000. The average number of additional innovation patents filed by an applicant who has previously filed one innovation patent application is 0.43 (based on very incomplete data).

**Conclusion:** When the underlying assumptions of the report are examined carefully, Statement 8 is not supported by the evidence.

**Statement 9.** Given the low private value of the system, it is likely that the system is a net cost to most of the SMEs that use it, and the system has imposed a regulatory burden of more than $100m since its introduction.

The suggestion that “the system has imposed a regulatory burden of more than $100m since its introduction” is based on the assumption that the system has an annual regulatory burden of more than $11 million. As calculated above with regard to Statement 2, the current annual regulatory burden is more likely to be around $4.3 million, based on more accurate figures. The system has been around for 14 years, but there were lower application numbers and lower costs in earlier years, so the total “regulatory burden” is likely to have been no more than $50 million.

**Conclusion:** When the underlying assumptions of the report are examined carefully, Statement 9 is not supported by the evidence.

**Economic Consequences of Abolishing Innovation Patents**

While the report is clearly slanted in favour of abolishing innovation patents, no consideration is given to evaluating the regulatory costs which would be imposed on patent applicants if the innovation patent system was abolished.

<table>
<thead>
<tr>
<th></th>
<th>Foreign Owner</th>
<th>Large Australian</th>
<th>SME/Individual Australian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>4363</td>
<td>859</td>
<td>13242</td>
</tr>
<tr>
<td>Standard</td>
<td>314982</td>
<td>8888</td>
<td>25900</td>
</tr>
<tr>
<td>% Innovation</td>
<td>1.4</td>
<td>8.8</td>
<td>33.8</td>
</tr>
</tbody>
</table>

Table 11

The above table shows the number of each type of patent application filed by foreign applicants, large Australian companies and Australian SMEs or individuals, for the years 2001 to 2014, according to the data in IP Government Open Data table 102. As can be seen from the data, 33.8% of all Australian complete patent applications filed by Australian SMEs or private individuals were innovation patent applications. Australian SMEs and private individuals would be the biggest losers by a long way if the innovation patent system was abolished.

If the innovation patent system was abolished, the more-than-one-third of complete applications currently being filed by SMEs and private individuals as innovation patent applications would be either filed as standard patent applications or not filed at all. Applicants choosing to file standard patent applications instead of innovation patent applications would be faced with the substantially higher regulatory costs associated with standard applications. Applicants unable to afford those higher costs would be discouraged from using the patent system altogether.
If the system was abolished, apart from the adverse economic impact on current patent applicants, there would also be an adverse impact on the broader economy by virtue of various innovations that would ordinarily be published through the innovation patent system, and thus made available to increase the body of knowledge available to the public, instead being retained confidential. In the absence of an innovation patent system, and the incentive for SMEs to innovate provided thereby, various innovations also simply would not come into existence as SMEs and private individuals would not as likely be willing to invest, or be able to attract investment, to develop their innovations in the absence of the availability of innovation patent protection. The broader economy would thus not enjoy the benefit of such innovations, and the associated products and services relating to such innovations.

6.0 Modifications to the Innovation Patent System recommended by both IPTA and FICPI Australia

Both IPTA and FICPI Australia accept that one disadvantage of the current Innovation Patent System is that granted rights can remain unexamined leaving third party uncertainty as to the likely scope of any certified rights.

The Economic Report fails to recognise that third parties currently have the right to request examination of an innovation patent (see section 101A). However, both IPTA and FICPI Australia recognise that this provision is rarely used. We have previously recommended that Government consider amendments to the system which would require a request for examination within a prescribed time following grant. We continue to believe that this would address the concerns raised in the Economic Report regarding the cost to SMEs pertaining to uncertainty surrounding uncertified grants.

Both IPTA and FICPI Australia continue to be concerned that the Innovation Patent System confers rights which in many ways are more valuable than rights conferred by a standard patent. An innovation patent is easier to secure, it is more difficult to revoke and the system provides flexibilities which are not available under the standard patent system. Both IPTA and FICPI Australia consider that the test for innovative step for the Innovation Patent should be amended, as the current test is little more than a novelty test. Options include:

i) introducing an inventive step requirement similar to that which existed under the law prior to 1991 for standard patents (3M v Beiersdorf – Inventive in the light of the common general knowledge in Australia); or

ii) requiring that the contribution which is made is not simply to the working of the thing, but rather a contribution by reference to the prior art.

Copies of our previous submissions with respect to these issues form Annexure 3.

7.0 Conclusion

The Innovation Patent System remains a vital part of the economic framework to develop and enhance innovation in this country. Abolition of the system would be perceived as an attack on innovation – particularly if the only alternative remaining was the higher cost right under the standard patent system. Both IPTA and FICPI Australia urge the Government to retain the Innovation Patent System whilst reconsidering the current requirements for certification and validity.

Representatives of both IPTA and FICPI Australia are available to discuss these issues if it would be of assistance.
Both IPTA and FICPI Australia acknowledge the assistance afforded by Mr. John Gibbs, in the preparation of these submissions.

Yours faithfully

Stephen Krouzecky
President FICPI Australia

Jeremy Dobbin
President IPTA
Annexure 1: Paper by Professor Stefan Wagner
Comment on Section 4.2 “An estimate of the private value-add of innovation patents” of IP Australia Economic Research Paper 05 “The economic impact of innovation patent”

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DISCLAIMER

This research has been sponsored by the Institute of Patent and Trade Mark Attorneys of Australia (IPTA) and FICPI Australia. The content of this comment does not reflect the official opinion of ESMT European School of Management and Technology. Responsibility for information and views expressed here lies entirely with the author.

Context

Section 4.2 “An estimate of the private value-add of innovation patents” of IP Australia Economic Research Paper 05 “The economic impact of innovation patent” provides an estimation of how much private value, in monetary terms, an innovation patent adds to the value of inventions. In line with existing research, it is argued that an invention generates private value for its proprietor independently of patent protection (in the following referred to as the “stand-alone value”) and that innovation patents add to the stand-alone value a “patent premium”, for example by providing its owner with market power. As detailed in Appendix 4.2 “Estimating the patent premium” of the research paper, the approach chosen by IP Australia relies on information on the value of individual inventions for which an innovation patent has been filed (obtained from an inventor survey) and estimates of patent premiums obtained from a scientific publication. The basic idea here is that the value of patented inventions as reported in the survey is the sum of an invention’s stand-alone value and the added value obtained from patent protection. In order to estimate monetary value generated of innovation patents, IP Australia applies average industry-level patent premiums derived from US firm-level data as published in Arora, Ceccagnoli and Cohen (2008) to invention-level value information obtained from the survey conducted in 2013.
Arora et al.'s (2008) study is based on the Carnegie Mellon survey (CMS) on industrial R&D conducted in 1994 (see Cohen, Nelson, and Walsh (2000) for more information). This data does not contain invention-level information on an invention’s value (stand-alone value) or the premium obtained by protecting it by a patent (patent premium). The CMS survey contains firm-level (more precisely business-unit-level) information related to firms’ innovation activities. In order to draw inferences from these observed firm characteristics on economic parameters of interest (most importantly the patent premium), Arora et al. (2008) develop a theoretical model that jointly explains firms’ R&D expenditures, R&D productivity (number of inventions produced) and the share of inventions for which patent protection is sought as a function of unknown (to be estimated) economic parameters. In this model, the (unknown) patent premium will affect how much firms will invest in R&D and how many patent applications will be filed (both is observed). Taking their theoretical model (and the underlying assumptions) to the data allows the authors to estimate economic parameters of interest including the patent premium. This approach is called structural modelling (Reiss and Wolak, 2007).

An important aspect of Arora et al.’s (2008) model is that it distinguishes two types of patent premiums: the expected and the conditional patent premium. The expected patent premium is the additional value that a patent application would add to the stand-alone value of all inventions made by a firm if a patent would be filed (independent of whether or not a patent actually has been filed). As Arora et al.’s (2008) model assumes that the patent premium is not equal for all innovations of a firm but follows a certain distribution, the expected patent premium might on average be negative, but could still be positive for a few inventions for which patent protection is then sought. The average additional value that patent applications add to the subset of inventions for which the patent applications are actually filed is thus positive (it multiplies the stand-alone value by a factor of greater than one, see Figure 2 in Arora et al. (2008)). It is called the conditional patent premium and is conditional on a firm’s decision to file a patent application. It is important to note here that it does not consider any further developments during the patent examination process (such as continuations, re-examinations, grant decisions) or developments after a grant decision has been issued (such as payment or non-payment of renewals fees).1

As described in Appendix 4.2, IP Australia is choosing a more refined approach than Arora et al. (2008) that does not only focus on the decision to file a patent (application) or not but also considers developments after a patent (application) has been filed. In particular, IP Australia is taking into account choices made by the applicant after the filing, most importantly the decision to certify an innovation patent. Additional assumptions on the relation between these post-filing choices and the patent premium are then introduced to derive the additional value of patent protection: For innovation patents that have been filed but not certified a conditional patent premium of 1 is assumed. This implies that the filing of an innovation patent without subsequent certification does not add to the stand-alone value of an invention but does not reduce it either. On page 80 of IP Australia’s report, it is noted that out of the population of 7,331 innovation patents that “remained in force or had expired at full term” only 1,737 (23.7%) have been certified. As a result, for 76.3% of all innovation patents (non-certified) a patent premium of 1 is assumed and for 23.7% of all innovation patents (certified) Arora et al.’s (2008) conditional patent premiums are applied.

Below, I highlight some of the implications of the approach chosen by IP Australia. Please note that my comments do not discuss to what extent the Arora et al. (2008) patent premiums can be transferred to the Australian Innovation Patent system. My comments follow IP Australia’s

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1 Please note that Arora et al. (2008) exploit information on firms’ patent applications and not patent grants, see Table 2 of Arora et al. (2008).
assumption that the patent premiums derived from the CMS survey can be transferred over i) time, ii) geographies/markets and iii) type of patents. My comments exclusively focus on the application of the patent premiums in estimating the added value of innovation patents (comment i) and the use of survey data obtained from an inventor survey (comment ii).

Comment I: Patent premium

In the application of Arora et al.'s (2008) findings, the conditional patent premium should have been assigned to all filed innovation patents as their original model is driven by an inventor’s choice to file a patent application (or not) but does not consider any subsequent choices after the application has been filed. IP Australia’s approach awards the conditional patent premium from Arora et al. (2008) only to certified innovation patents while uncertified innovation patents are awarded a premium of only one.

To highlight the effect of this choice, I use the formula for the value-add of innovation patents as point of departure. Following IP Australia’s notation on page 80 of the Appendix to IP Australia’s report, the added value of innovation patents can be derived from the following equation

$$v^p - v^i = v_p \frac{\mu_c \cdot (1 - \sigma) \mu_f^{-1}}{\sigma \mu_c \cdot (1 - \sigma) \mu_f}.$$  

In (1), $v^p$ is the value of a patented invention as reported in the Verve Economics survey (i.e., the sum of an invention’s stand-alone value plus the added value from patent protection), $v^i$ is the unobserved invention’s stand-alone value, $\sigma$ is the share of certified innovation patents, $\mu_c$ is the conditional patent premium from Arora et al. (2008) and $\mu_f$ is set equal to one by IP Australia.

Applying the 23.7% certified vs. 76.3% non-certified share of innovation patents (p. 80 of IP Australia report) and the lowest patent-premium reported in Arora et al. (2008, Table 7) – 1.38 – in order to derive a lower bound for the patent premium yields

$$v^p - v^i = v_p \frac{0.237 \times 1.38 + 0.763 \times 1 - 1}{0.237 \times 1.38 + 0.763 + 1} \approx v^p \times \frac{0.09006}{1.09006} = v^p \times 0.08262.$$

In order to derive an upper bound of the patent premium IP Australia uses the highest premium reported in Arora et al. (2008, Table 7) – 1.62 – which amounts to

$$v^p - v^i = v_p \frac{0.237 \times 1.62 + 0.763 \times 1 - 1}{0.237 \times 1.62 + 0.763 + 1} \approx v^p \times \frac{0.14694}{1.14694} = v^p \times 0.12811.$$

This implies that the approach chosen by IP Australia yields an added-value of innovation patents amounting to 8.3% to 12.8% of an invention’s stand-alone value.

On the other hand, if one follows the original model provided by Arora et al. (2008) and does not apply different premiums to non-certified patents and certified patents but focuses solely on an inventor’s decision to file a patent the calculations simplify to

$$v^p - v^i = v_p \frac{0.237 \times 1.38 + 0.763 \times 1 - 1}{0.237 \times 1.38 + 0.763 + 1} \approx v^p \times \frac{0.38}{1.38} = v^p \times 0.2754$$

and

$$v^p - v^i = v_p \frac{0.237 \times 1.62 + 0.763 \times 1 - 1}{0.237 \times 1.62 + 0.763 + 1} \approx v^p \times \frac{0.62}{1.62} = v^p \times 0.3827.$$

Hence, these calculations yield an added-value of innovation patents amounting to 27.5% to 38.3% of an invention’s stand-alone value. This is considerably higher (by a factor of more than 3) than what has been derived by IP Australia. Given that IP Australia found a range of the aggregate value-add
created by innovation patents in Australia between 10 million and 40 million AUD, the application of a factor of 3 for both the lower and upper bound of the aggregated value created by innovation patents would yield a range of 30 million to 120 million AUD. Note however, that these estimations assume that Arora et al.’s (2008) premiums can be applied to Australian innovation patents.

In defence of IP Australia’s modelling approach, it needs to be noted that Arora et al. (2008) do assume that patent premiums vary over different inventions of a firm (see Figure 2, Arora et al. (2008)). This fact could be used as justification for a distinction between non-certified and certified innovation patents. Nevertheless, such a distinction makes the application of the patent premiums reported by Arora et al. (2008) challenging for two reasons: First, Arora et al. (2008) report only the mean value of the different patent premiums for inventions. They do not provide further information what the right premium for different types of innovations should be. Even if different premiums are applied to different inventions (as has been done in the report of IP Australia), their weighted mean should be equal to the conditional patent premiums reported in Arora et al. (2008) in order to reflect their results properly. This, however, is not the case in IP Australia’s specification. Here the weighted mean is 1.09 (= 0.237*1.38 + 0.763*1) instead of 1.38 for the lower bound and 1.15 instead of 1.62 for the upper bound.

Second, the distinction between non-certified and certified innovation patents might not properly reflect the fact, that some innovation patents do not get certified while being of equal (high) value than certified innovation patents. It is possible that the mere existence of a non-certified innovation patent deters competitors from imitation even without certification if competitors anticipate that a certification would provide the patent holder with a strong and enforceable patent. Based on this anticipation they would not imitate the protected invention. This, in turn, renders certification and enforcement unnecessary for the inventor. In such situations, the patent holder would get the full value-add from an innovation patent without certification. In absence of further information what share of non-certified patents actually deters competitors from imitation any distinction between filed vs. filed seems to be speculative.

Comment II: Patent value

In addition to the patent premium, the value of a patent protected invention $v^p$ is the second cornerstone in deriving the added value of patents. The value of patent protected inventions $v^p$ has been obtained from a survey of inventors which was conducted by Verve Economics. In total, 487 individual responses have been collected and yield a distribution of values across the value categories 0 – 999 AUD, 1,000 – 10,000 AUD, 10,001 – 100,000 AUD, 100,001 – 1,000,000 AUD and more than 1,000,000 AUD. The distribution is reported in Figure 11 of IP Australia’s report (page 77).

In the estimation of the upper bound of the value created by innovation patents, the values obtained from the inventor survey $v^p$ have been applied in the estimation mostly “as is” and have been multiplied by the highest patent premium that was derived as described above (see my equation (3)). The only adjustment that has been made is that all patented inventions for which the inventor reported a value of more than 1,000,000 AUD have been treated as having a value of exactly 1,000,000 AUD. Verve Economics, however, reports values of up to 10,000,000 AUD for this category. Given that more than 25% of all respondents reported a value of more than 1,000,000 AUD, this adjustment might underestimate the upper bound of the value generated by innovations patents. Additionally, it should be noted that comparable surveys of patent value show a pronounced right tail of the value distribution, which is also depicted in Figure 11 of the Appendix to IP Australia’s report. This right tail of high values is not accounted for in the approach chosen by IP Australia which truncates the distribution at 1,000,000 AUD. In the absence of a scale that contains a more refined measurement of
high-value patented inventions (compared to “1,000,000 AUD or higher”), however, it is hard to quantify the exact impact of this adjustment.

Table 1 below demonstrates the sensitivity of the results to the treatment of the highest value category. If it had been assumed that the high-value patents have an average value of 1,500,000 AUD (instead of 1,000,000 AUD) the upper bound estimate would have been 27% higher, with 2,000,000 AUD average value for the highest category 54% higher.

**Table 1: Sensitivity analysis of different valuations of the highest value category.**

*Notes: The reported change is the percentage change relative to the aggregate value where the highest category is valued at 1,000,000 as done in the IP Australia report. The table is based on the value distribution reported by Verve Economics and reports the aggregated value over the lifetime of the patent protecting an invention. In order to obtain annual figures IP Australia divided these values by 11.17 (years) which is taken as the average lifetime of a patent. Moreover, the aggregate value has been scaled up by IP Australia to reflect the population rather than the Verve sample. The relative changes implied by different treatments of the highest value category, however, still apply.*

<table>
<thead>
<tr>
<th>Response Category</th>
<th>Midpoint value</th>
<th>Observations</th>
<th>Aggregate Value for different treatments of highest category</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-999</td>
<td>499.5</td>
<td>14</td>
<td>6,993 6,993 6,993</td>
</tr>
<tr>
<td>1,000 - 10,000</td>
<td>5500.5</td>
<td>37</td>
<td>203,519 203,519 203,519</td>
</tr>
<tr>
<td>10,001 - 100,000</td>
<td>55000.5</td>
<td>143</td>
<td>7,865,072 7,865,072 7,865,072</td>
</tr>
<tr>
<td>100,001 - 1,000,000</td>
<td>550000.5</td>
<td>171</td>
<td>94,050,086 94,050,086 94,050,086</td>
</tr>
<tr>
<td>1,000,000 or bigger</td>
<td>see column headings</td>
<td>122</td>
<td>122,000,000 183,000,000 244,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>487</strong></td>
<td><strong>224,125,669 285,125,669 346,125,669</strong></td>
</tr>
<tr>
<td><strong>Change</strong></td>
<td></td>
<td></td>
<td>+27.22% +54.43%</td>
</tr>
</tbody>
</table>

In order to derive the lower bound of the value generated by innovation patents, IP Australia assumes that the Verve Economics survey is not representative and yields a biased picture of the value of patent protected inventions \( v^p \) for two potential reasons: First, inventors with high value inventions might be more likely to respond. Second, inventors might simply overestimate the value of their inventions. Both would lead to an upwardly biased picture of actual patent values. In order to correct for this bias the value distribution obtained from the inventor survey has been scaled down as described in Appendix 4.2, page 78.

Since the wording used in the report is ambiguous, I try to replicate the adjustments made by IP Australia in two ways (see Table 2 below): First, I shift 20% of the observations from all categories (except the lowest category) to the next lower one. Second, I shift 20% of the observations of all categories (except the lowest category) directly to the lowest category. In order to quantify the impact of these adjustments, I multiplied the number of (un)adjusted observations by the midpoint of each category. As Table 2 demonstrates, the effect of the adjustments on the value \( v^p \) used to compute the added value of innovation patents is between -13% and -20% relative to the value

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2 For instance, 20% of all 122 observations in the highest category (i.e., 0.2*122 = 24.4) are shifted to the second highest category. For the second highest category, 0.2*171 = 34.2 observations are shifted to the third category. The adjusted numbers for the second category are now 171+24.4-34.2 = 161.2.

3 For instance, 20% of all 122 observations of the highest category (i.e., 0.2*122 = 24.4) are shifted to the lowest category. Equally, for the second highest category, 0.2*171 = 34.2 observations are shifted to the lowest category. The adjusted numbers for the second category are now 171-34.2 = 136.8.
obtained from the original distribution. (Please note, that both approaches do not replicate the reported 38% increase in the number of observations in the lowest category that has been reported by IP Australia. The available information does not explain the different results from my adjustments relative to the adjustment by IP Australia.) This reduction in the aggregate value is in addition to assigning a value of exactly 1,000,000 AUD to the observations in the highest category (see above). Effectively, in the calculation of the lower bound of the value generated by innovation patents the value distribution has been scaled down more than the -13% to -20% reported in Table 2.

**Table 2: Adjustments to value distribution.**

Notes: Adjustment (1) shifts 20% of the observations of all categories except the lowest category to the next lower category. Adjustment (2) shifts 20% of the observations of all categories except the lowest category to the lowest category. The reported change is the percentage change relative to the aggregate value where the highest category is valued at 1,000,000 as done in the IP Australia report.

The table is based on the value distribution reported by Verve Economics and reports the aggregated value over the lifetime of the patent protecting an invention. In order to obtain annual figures IP Australia divided these values by 11.17 (years) which is taken as the average lifetime of a patent. Moreover, the aggregate value has been scaled up by IP Australia to reflect the population rather than the Verve sample. The relative changes implied by different adjustments of the value distribution, however, still apply.

<table>
<thead>
<tr>
<th>Response Category</th>
<th>Midpoint value</th>
<th>Observations</th>
<th>Aggregate Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Unadjusted</td>
<td>adjusted (1)</td>
</tr>
<tr>
<td>0.999</td>
<td>499.5</td>
<td>14</td>
<td>21.4</td>
</tr>
<tr>
<td>1,000 - 10,000</td>
<td>5,500.5</td>
<td>37</td>
<td>58.2</td>
</tr>
<tr>
<td>10,001 - 100,000</td>
<td>55,000.5</td>
<td>143</td>
<td>148.6</td>
</tr>
<tr>
<td>100,001 - 1,000,000</td>
<td>550,000.5</td>
<td>171</td>
<td>161.2</td>
</tr>
<tr>
<td>1,000,001 or bigger</td>
<td>1,000,000</td>
<td>122</td>
<td>97.6</td>
</tr>
<tr>
<td>Total</td>
<td>487</td>
<td>487</td>
<td>487</td>
</tr>
</tbody>
</table>

Change

|                   |                |              | Unadjusted | adjusted (1) | adjusted (2) |
|                   |                |              |            |              |              |

Without further research, it is hard to verify the existence and to quantify the magnitude of an upward bias in the patent values obtained from the Verve Economics survey. Adjustments are warranted only if a bias exists. Whether adjustments in the range of (more than) -13% to -20% are appropriate to correct for a potential bias remains unclear.

References


FICPI is the International Federation of Intellectual Property Attorneys and is broadly representative of the profession in private practice throughout the world, having national and regional Patent Attorneys. FICPI represents, advises, and acts on behalf of all kinds of IP users including large companies, SMEs, universities and individual inventors from all around the world.

Introduction

FICPI is supportive of an effective IP system for the users to protect their inventions. However, the IP system should also be acknowledged by the general public as being fair, balanced and beneficial to society as a whole. An effective IP system should award the innovator for disclosing new inventions to the public and for bringing the inventions to the market. This award is in the form of an IP right and it must enable the proprietor thereof to efficiently prevent competitors from unjustly profiting from his invention without his approval. This IP right, providing the proprietor thereof an exclusive right to exploit the invention, must, however, also be balanced i) in view of the contribution the innovator has made to the technology, and ii) in view of the right of third parties (competitors) to efficiently combat unjustified threats based on this IP right. Usually, this IP right is mainly a patent right, however, in some countries (actually in about a hundred countries!) it can alternatively or additionally be a utility model right.

FICPI has generally supported the concept of a utility model right as a distinct right as part of an IP system. A study on utility model as a type of protection was presented to the ExCo (Executive Committee) in Melbourne 2012, focusing on the formal and substantive conditions for obtaining utility model protection in various jurisdictions. The CET (Work and Study Commission) decided to pursue the matter by updating the study and looking especially at the enforcement side of utility models. A questionnaire was sent to the FICPI ExCo delegates from 35 national sections and associations, and from 4 provisional sections. Thereupon, the issue was discussed at a number of FICPI meetings in 2014 and 2015, viz. at an ExCo (Executive Committee) meeting in Kyoto in April 2014, including a workshop with ExCo delegates, an ExCo meeting in Barcelona in November 2014, a CET meeting in Oxford in January 2015 and an ExCo meeting in Cape Town in April 2015.
General Statement

Based on studies and consultation within FICPI, FICPI believes that a utility model system in addition to a patent system is beneficial to an effective IP system by providing a tool by which a meaningful and enforceable right can be quickly achieved for inventions.

The above statement to a utility model system is supported by the following considerations:

Processing time to receive an enforceable right for an invention
Generally it takes several years to have a patent granted. Additionally, the patent offices suffer under a backlog of a huge number of unexamined patent applications which continues to grow due to the increasing number of patent applications and the limited resources of Examiners in the patent offices. This situation is counter-productive to legal certainty, and that has a negative effect on the innovation process. The increasing backlog slows down examination procedures further. The long processing time for receiving a registered patent stays the possibility to enforce the patent right putting the owner of a patent application in a troublesome situation.
Products with a short life time cycle need a fast intellectual property protection.
A utility model which is registered without examination provides for a quickly granted IP right.

Costs
In many countries a patent is granted after examination. This increases the legal certainty of such an IP right. However, this results in relatively high examination costs as fees have to be paid to the patent offices for search and examination and time has to be spent on analyzing and replying to office actions. Furthermore, opposition procedures, annuity fees and further formal requirements increase the costs even more.
On the other hand there is a need, especially for the small and medium sized industry, for a meaningful and affordable IP right for protecting inventions. Furthermore, after all, a pre grant examination system never guarantees a valid IP right, because patent offices have only limited resources to conduct their examination and searches on the vast, worldwide and ever increasing prior art. Consequently, patents granted after examination are often revoked later on.

Experiences
In many countries having a utility model or a similar intellectual property right the utility model has proved to be a successful instrument offering the user a further quickly available protective right for consideration. It is a secondary protection forming an alternative to the traditional long term patent protection. Practitioners have devised strategic approaches to balance timing and rights as well as flexibility based on inventions. Although the utility model is historically limited to only specific kinds of inventions, the development in different jurisdictions shows that the possibilities are broadened to provide for protection for different kinds of inventions (e.g. methods can be protected in some countries) and the utility model system has been transformed into a “small patent system”.

Different rules in different countries
There are no common rules in different countries having a utility model system. In some countries, which have a utility model system, the prerequisites for an invention to obtain a utility model are similar to the prerequisites for a patent, in some countries even identical. The prerequisites refer to the conditions for obtaining a valid utility model such as novelty, inventive step, etc., as well as the type of inventions that can be protected such as devices, methods etc. In some countries a grace period is part of the utility model system, however, not of the patent system, thus, different kind of novelty definitions could be part of the two systems in one country. In most countries the required
level of inventive step is set lower than for patents. Practitioners may also have difficulties to determine different kind of levels of an inventive step. In most countries methods cannot be protected by utility model. Mostly, in a utility model system the maximum duration of such a right is shorter and the scope of protection may be sometimes narrower compared to patent rights. Although, harmonization is not necessary in detail, it is FICPI’s common understanding that these prerequisites for a utility model should be close to those for a patent. It is thus sufficient to adapt the utility model system or to introduce a utility model system having similar minimum frame conditions providing a certain "minimum" level of harmonization. Important frame conditions are discussed below and views thereon are also put forward.

Major issues

1. The utility model should, as a distinct part of the IP system, be an intellectual property right parallel to the patent, to gain an alternative protection of an invention and, thus, an additional tool for the user. Thereby, the inventor has an additional possibility of selecting a protection for his invention under different point of views, such as costs, legal certainty, and quick grant. In other words: in addition to the traditional patent system with special requirements with respect to granting, including e.g. an obligatory substantive examination procedure there should exist, in an effective IP system for inventions a parallel, additional registration system, which, on the one hand, enables quick registration and protection and, on the other hand, avoids abuses when it comes to enforcement.

2. The possibility of a fast registration of the utility model to gain a quickly granted and enforceable right for an invention is one important condition to make a utility model system successful.

3. The prerequisites for obtaining a utility model for an invention should be similar and balanced to the prerequisites for a patent.

   3.1 There should be no more possibilities in the utility model system with respect to types of inventions which could be protected over the parallel patent system.

   3.2 The utility model has to pass thresholds with respect to the prerequisites, such as novelty and inventiveness, to be valid. Moreover, the obtainable rights of a valid utility model such as enforcement possibilities, claim interpretation (scope of claim and protected equivalents), duration, etc. should be dependent on these thresholds so that the obtainable rights and the thresholds are balanced.

   3.3 The maximum duration for a utility model should be substantially shorter than for patents.

4. The examination should be limited to lower the costs and to speed up the registration time and to shorten the procedure to have utility models granted.

   4.1 Only a mandatory formal examination before registration should be necessary.

   4.2 There should be no obligation for substantial examination.

5. Especially small and medium sized companies and individual inventors are very dependent on user friendly official fees for their IP rights. Insofar, it is one further important condition that the utility model system has lower official fees over a parallel patent system to obtain an intellectual
property right at lower costs.

6. In order to offer the user all possibilities in flexibly protecting the invention, the utility model system should offer the applicant all possibilities of a patent, such as claiming priority, entering a national phase from a PCT application directly or indirectly and should enable the derivation from a patent application to a utility model application.

7. The utility model system should include safeguards, to prevent abuses and unfair competition in connection with the enforcement of the utility model right. Thus, at least the following frame conditions are necessary in a balanced utility model system:

7.1 A mandatory search on prior art, e.g. WIPO search report with a written opinion to judge the validity of the registration, before enforcing the utility model.

7.2 A possibility to nullify a utility model and a limitation procedure for the utility model. The limitation procedure could be part of the procedure of nullifying the utility model.

7.3 It should be possible that prior art can be filed with the patent office at any time, in the form of e.g. an observation which then will be part of the file of the utility model; this prior art has to be considered if it comes to an action of nullity or a limitation procedure.

7.4 No interlocutory injunctions based on a utility model should be possible under certain circumstances, such as when the utility model has not materially been examined or the likelihood of the validity of the registration has been similarly proved.

7.5 In the enforcement procedure based on a utility model and in invalidity procedure against a utility model there should be a fair balance of rights between the utility model owner, on the one hand, and the third party, on the other hand, and safeguards to prevent abuses, e.g. loser of the dispute pays the costs. Utility models and patents may be allowed to supplement each other.

Conclusions
A utility model system encourages inventors to protect technical developments with low costs and with quick registration. FICPI is of the view that utility models, as a distinct right as part of an IP system, with appropriate safeguards are beneficial and also strategically important by completing the possibilities for protection of inventions. Utility models are of particular interest and importance to small and medium-sized companies.

[End of document]
Annexure 3: Copies of Previous Submissions of both IPTA and FICPI Australia
BY EMAIL
dcg@ipaustralia.gov.au

Mr Sean Applegate
Assistant Director
Domestic Policy
IP Australia

25 October 2012

Dear Sean

Innovation Patent System Review

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

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

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

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

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

The proposed reform would result in the level of invention required for an innovation patent to be identical to that for a standard patent. If that were to be the case, it is hard to identify a rationale for an innovation patent at all. One could simply secure a standard patent and maintain it for 8 years if that was the length of protection required. All other relevant patentability tests would be the same. Such protection would come however, with the disadvantages of restrictions relating to subject matter and the number and type of claims that could be the subject of an innovation patent.
FICPI Australia strongly disagrees with the proposed reform. It would undermine the Innovation Patent System to such an extent that we doubt that it would be used in any meaningful way. It would take from industry the opportunity to protect innovation which does not meet the new higher standards which are to be applied to inventions under the Raising the Bar Amendments.

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

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

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

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

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

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

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

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

Yours sincerely

Greg Chambers
President
FICPI Australia
25 October 2012

BY EMAIL TO: MDB-Reform@ipaustralia.gov.au
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Parliament House
Canberra ACT 2600

The Hon Mark Dreyfus QC MP
Parliamentary Secretary for Industry and Innovation
PO Box 6022
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Parliament House
Canberra ACT 2600

Mr Philip Noonan
Director General
IP Australia
PO Box 200
Woden ACT 2606

Dear Sirs

Innovation Patents – Raising the Step Consultation Paper

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

Executive Summary

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

The proposal itself is fundamentally flawed:

- The proposal is premature in view of the pending ACIP Review;
• The proposal would result in all patentability requirements for an innovation patent being the same as that for a standard patent, rendering the innovation patent system substantially obsolete;

• The innovation patent system would no longer be able to satisfy its primary objective of stimulating innovation in Australian SMEs by enabling them to obtain intellectual property rights for their lower level inventions;

• The innovation patent system does not provide low cost protection, (as suggested in the IPA Consultation Paper to be the remaining benefit of the system). The significant cost of preparation of a patent specification (which is the same for innovation and standard patent specifications) will increase due to the enhanced disclosure and support requirements introduced by the *Raising the Bar Act*.

• Australian industry is suffering in difficult economic times and has fallen behind the rest of the world in innovation, so still needs the support of the innovation patent system.

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

• At the time innovation patents were introduced the Government intended that they provide protection for obvious, but still innovative, inventions as recommended by the Advisory Council on Intellectual Property ("ACIP");

• There is no difficulty or harm in tailoring innovation patents (or standard patents) to target potential infringers, and the proposal will not affect the ability to do so;

• The innovation patent system is still overwhelmingly used by Australian SMEs, contrary to the assertions in the IPA Consultation Paper;

• The number of applications filed in so-called "high-tech" technologies is still very small. The apparently high percentage increase in specific technologies identified in the IPA Consultation Paper relates to insignificant filing numbers in those technologies;

• The IPA Consultation Paper provides no evidence of inappropriate use of the innovation patent system;

• The innovative step test clarified in the *Delnorth Case* is generally consistent with the original Government intention;
IPTA Submission

- Extending patent life by "evergreening" is not possible. There is no evidence that it has ever been achieved (or is possible) using the innovation patent system;

- Over 75 countries have second-tier patent systems, as opposed to a "modest but significant" number of countries as stated in the IPA Consultation Paper;

- Most of Australia's top trading partners have second-tier patent systems, including three of Australia's four largest trading partners;

- Contrary to what is stated in the IPA Consultation Paper, Japan and Germany do not apply an inventive step to their utility model patents, the same as applies to their standard patents.

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

- Modify the current test to "require substantial contribution to the working of the invention" to be assessed against working of the prior art;

- Replace the innovative step test with the inventive step test under the Patents Act 1952, considering inventive step in light of the common general knowledge only.

Overview

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

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

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

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

Our submissions are set out below in further detail.

About IPTA

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

History and Objectives of the Innovation Patent System

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

1 ACIP Petty Patent Report, page 27

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

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

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

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

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

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

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

\(^2\) ACIP Petty Patent Report, page 32, Recommendation 2  
\(^3\) *Griffin v Isaacs* (1938) 12 ALJ 169  
\(^5\) Government Response, page 1  
\(^6\) Government Response, page 2  
\(^7\) *Revised Explanatory Memorandum*, page 2
property rights for their lower level inventions. Industrial property rights are not available for these inventions at present, which means competitors may be able to copy them. For this reason, a firm making lower level inventions cannot be certain of capturing the benefits that come from their commercial exploitation. This lowers the incentive to innovate.

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

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

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

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

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

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8 Revised Explanatory Memorandum, page 10
Whilst the statement that the prior art base for innovative step is the same as that for inventive step is incorrect, with the prior art base being broader for innovative step than for inventive step, the prior art bases will in fact be the same following broadening of the inventive step prior art base on implementation of the *Raising the Bar Act*\(^9\).

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

**ACIP Review**

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


\(^9\) *Intellectual Property Laws Amendment (Raising the Bar) Act 2012*


\(^11\) “Manufacturing in Crisis” UNSW Engineers, Issue 25, May 2012

(681147_1):PRW
It is clearly inappropriate for IP Australia to prematurely seek a major overhaul of the innovation patent system, which would effectively render it obsolete, whilst the extensive ACIP review is still being conducted and is relatively close to completion.

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

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

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

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

Replacing the innovative step test with an inventive step test will not, however, prevent the tactical use of innovation patents to tailor patents to target potential infringers, as asserted in the IPA Consultation Paper. It will still be possible for patent applicants to file divisional
innovation patent applications with claims tailored to target infringers or potential infringers, and obtain rapid enforceable patent protection. This practice has been necessitated by the inordinate delays in conducting patent oppositions before the Australian Patent Office, which will hopefully be addressed, at least to some extent, by the provisions of the *Raising the Bar Act*. The provisions of the *Raising the Bar Act* restricting the deadline for filing divisional innovation patents will effectively remove the ability to file divisional innovation patent applications to target infringers or potential infringers during opposition proceedings, but the proposed reforms set out in the IPA Consultation Paper will have no effect in this regard.

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

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

**Drafting instructions**

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

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

**Use of the Innovation Patent System**

As is made clear from the ACIP Innovation Patent Issues Paper\(^{12}\) and the IPA Consultation Paper itself\(^{13}\), the innovation patent system has predominantly been used by local Australian

\(^{12}\) ACIP Innovation Patent Issues Paper, page 8, Table 1

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

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

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

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

\(^{13}\) IPA Consultation Paper, pages 2 and 3

\(^{14}\) IPTA Innovation Patent Issues Paper Response, pages 1 and 2
pharmaceutical inventions where it typically takes well over eight years to gain regulatory approval to commercialise new pharmaceuticals. In any event, the IPA Consultation Paper admits that over 75% of innovation patent applications in 2011 were still filed in technologies other than those filed in supposedly "high-tech" technologies.

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

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

The Delnorth Case
The IPA Consultation Paper makes reference to the decision of the Federal Court in the Delnorth Case15, suggesting that the decision of the Federal Court (in the first instance decision and on appeal),16 in considering the test for innovative step, was inconsistent with the intention of the Government. This is stated to be "uncompetitive and unacceptable" and to leave the system "open to inappropriate use". The IPA Consultation Paper asserts that the innovative step threshold established in the Delnorth Case "is much lower than was anticipated by the designers of the system" and "allows even clearly obvious enhancements to be patented". The decision of the Federal Court in the Delnorth Case was, however, at least generally consistent with the innovative step threshold anticipated by the Government, as was set out in the Revised Explanatory Memorandum and the Government Response. As noted above, the Revised Explanatory Memorandum made it clear that the inventive threshold for an innovation patent was intended to be lower than that for the inventive step test applicable to a standard patent (which requires the invention to be non-obvious and requires only a "scintilla" of invention). The Revised Explanatory Memorandum also explicitly set out that there is no requirement for an invention claimed in an innovation patent to be non-obvious.

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

15 Delnorth Pty Ltd v Dura-Post (Aust.) Pty Ltd [2008] FCA 1225
16 Dura-Post (Aust.) Pty Ltd v Delnorth Pty Ltd (2009) 81 IPR 480

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

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

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

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

The Delnorth Case was a classic example of the innovation patent system working and achieving its objective of supporting Australian SMEs in protecting their lower level innovations. Delnorth Pty Ltd is an example of a regional Australian SME that successfully protected its innovation. The Australian Patent Office had regarded Delnorth's innovation as not being of a sufficiently high inventive level to be worthy of standard patent protection, having allowed an opposition to the grant of a standard patent corresponding to the innovation patents that were the subject of the Delnorth Case and, following a successful Federal Court appeal to the opposition, deciding to revoke the standard patent following re-examination. A decision from the Federal Court of Australia regarding an appeal from the Australian Patent Office’s re-examination decision is still pending.
The Delnorth Case thus did nothing more than reflect the general intention of the Government when the innovation patent system was introduced and helped achieve the Government’s objective by protecting the innovation of an Australian SME from copying.

**Evergreening**

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

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

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

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

**Other countries use of utility models**

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

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17 Revised Explanatory Memorandum, page 2

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

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

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

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

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


19 Japanese Utility Model Act, Article 2

20 Japanese Utility Model Act, Article 3

21 Japanese Patents Act, Article 2

22 Japanese Patents Act, Article 29

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

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

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

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

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

\(^{23}\) German Utility Model Law, Article 1 (1)

\(^{24}\) German Patent Law, Article 1 (1)

\(^{25}\) German Utility Model Law, Article 3 (1)

\(^{26}\) German Patent Law, Article 3 (1)

\(^{27}\) ACIP Innovation Patent Issues Paper, page 13

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

- a) Minor modification of the current innovative step test to require that the "substantial contribution to the working of the invention" is to be assessed against the working of the relevant prior art disclosure from which the invention varies; or

- b) Replace the current innovative step test with a test equivalent to the inventive step test under the Patents Act 1952, in which inventive step may only be considered in light of the common general knowledge, as set out by the High Court in the 3M Case\textsuperscript{29}

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

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

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

\textsuperscript{28} IPTA Innovation Patent Issues Paper Response pp 9-10

\textsuperscript{29} Minnesota Mining Co. v Beiersdorf (Australia) Ltd (1980 1A IPR 231)
IPTA Submission

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

Yours sincerely

Greg Gurr
Councillor – Patents Legislation Committee
The Institute of Patent and Trade Mark Attorneys of Australia
21 October 2011

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Jeff Carl
Secretariat
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Dear Mr Carl


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

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

**Question 1. Effectiveness in stimulating innovation**

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

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

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

Whilst it is difficult to positively conclude that the innovation patent system stimulates innovation per se, IPTA strongly believes that the innovation patent system does stimulate further development of innovations and commercialisation of such innovations. Without the benefit of any form of protection, many Australian small to medium business enterprises are not willing to invest in developing their innovations into a mature form and commercialising such innovations. IPTA members have, however, witnessed many small to medium business enterprises bringing their innovations to commercial reality, bringing benefit to the Australian public, once they have innovation patent protection in place. Small to medium businesses have also been built around innovations protected by innovation patents.

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

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

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

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

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

Innovation patent applications are also filed for other, significantly less common, strategic reasons. One such strategic reason is to obtain enforceable IP rights in a short time frame where the invention of an applicant for a standard patent is being exploited by a competitor and that competitor has tactically opposed (or is likely to tactically oppose) the standard patent application so as to delay grant of an enforceable standard patent and the
commencement of subsequent Federal Court infringement proceedings. This delaying tactic may delay the applicant from obtaining enforceable standard patent rights by four years or so (or even longer if the opposition is appealed to the Federal Court). This provides the infringing competitor with the opportunity to continue commercial exploitation of the invention to the detriment of the patent applicant. This strategic reason for filing an innovation patent is thus primarily a reaction to an infringing competitor exploiting deficiencies in the standard patent system. Unfortunately, the Raising the Bar Bill will effectively remove this strategic use of the innovation patent system by preventing the filing of any divisional applications after the deadline for filing an opposition in relation to a standard application (that is, three months after advertisement of acceptance). Infringing competitors will be able to freely delay the commencement of infringement proceedings, allowing them to continue exploiting others’ inventions for several years without risk of early action being taken against them.

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

**Question 3. Costs**

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

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

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

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

**Question 4. Certification**

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

**Question 5. Comparison with trading partners**

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

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

How do these experiences compare with your experiences in Australia?

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

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

**Question 6 – Uncertainty**

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

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

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

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

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

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

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

a) Full examination before grant – One obvious way of reducing the present uncertainty arising from delayed certification would be to conduct full examination before the grant of an innovation patent. Apart from greatly reducing the present uncertainty, conducting full examination before grant would also avoid the current widely held misconception that a granted innovation patent provides some form of enforceable IP right that has been subject to some level of scrutiny. This solution thus initially seems quite attractive when the public interest only is considered. However, examination before grant would generally significantly increase the up-front costs for applicants of innovation patent applications and would therefore reduce the incentive for small to medium enterprises to use the innovation patent system. This would also be contrasted to the standard patent system where examination costs can be delayed, typically by close to five years from the filing date. Accordingly, IPTA believes that full examination before grant of an innovation patent would not provide an appropriate balance between the interests of the public and those of patent applicants.

b) Partial examination before grant – An alternate option to full examination before grant would be to conduct a limited form of examination beyond the present formalities only examination. Such a limited form of examination might include examination on Section 40 matters only. This option would avoid the potentially significant cost of searching and examination based on patentability issues, but should ensure that innovation patents are granted

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

c) **Damages from certification date** – An option to provide an incentive for patentees of innovation patents to proceed with certification at an early stage would be to restrict the availability of an award of damages or account of profits to commence only from the date of certification. Patentees that are serious about protecting their inventions and enforcing their rights in relation to the same would be encouraged to seek certification at an early date. IPTA believes that this system would provide an appropriate balance between the interests of the public and patent applicants.

d) **Reduced standard application pendency** – To reduce the uncertainty that arises resulting from the delay in examination of standard patent applications, thereby delaying the deadline for filing any divisional innovation patent applications, various measures set out in the *Raising the Bar Bill* seek to reduce the pendency of standard patent applications as noted above. Further effort, however, needs to be made in reducing the significant delays in examination in the Australian Patent Office to further reduce this uncertainty.

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**Question 7. Relief from Infringement**

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

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

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

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

a) **No injunctive relief** - One option would be to remove the availability of injunctive relief, leaving the only remedies as damages or an account of profits for past infringing activities and a reasonable royalty set by the Federal Court in relation to future infringing activity. Having the Federal Court consider what is a "reasonable royalty" would, however, further complicate, and increase the cost of, infringement proceedings as well as uncertainty in relation thereto. In many ways seeking a reasonably royalty would be similar to compulsory licence proceedings before the Federal Court which have historically been unsatisfactory. The unavailability of injunctive relief would also greatly reduce the incentive for infringing parties to negotiate a licence with a patentee, given that the worst outcome of infringement proceedings would effectively be similar to what could be achieved through licensing negotiations. Perhaps more liberal awarding of additional damages under Section 122 (1A) of the
Patents Act 1990 for flagrant infringement would alleviate this concern to some degree. IPTA does have concerns that the unavailability of injunctive relief, and the possibility of being forced into what is effectively a commercial relationship with infringing competitors by way of a reasonable royalty, would act as a significant disincentive for inventors to pursue innovation patent protection.

b) **Injunctive relief only** - An alternative may provide that, whilst an injunction is available, damages or an account of profits would not be available. This would, however, also reduce the disincentive for competing parties to infringe an innovation patent. Even if infringement proceedings were commenced, the infringing party would likely take any action available to delay the proceedings so that they may continue to infringe until the proceedings are concluded, with no disadvantage. This could perhaps be partly addressed by providing that damages or an account of profits would only be available as from the date infringement proceedings are commenced.

c) **Injunction only for flagrant infringement** – A further option would be to maintain the availability of damages or an account of profits, but limit circumstances where injunctive relief is available. Such circumstances may be where there has been flagrant infringement (consistent with the current provisions of Section 122 (1A) in relation to assessments of additional damages) or perhaps injunctive relief might only be available where “copying” is established, using principles from copyright law. In circumstances where an injunction is not provided, then a reasonably royalty would be an appropriate alternate form of relief for ongoing exploitation of the invention. This option should provide the patentee with protection against competitors who wilfully and intentionally set out to infringe a competitor’s innovation patent yet will still reduce the level of relief available for other, less flagrant, circumstances of infringement. This would thus provide an incentive for inventors with “higher level” inventions to utilise the standard patent system rather than the innovation patent system. There are still, however, concerns that the availability of injunctive relief in certain circumstances only would again increase costs, complexity and uncertainty of infringement proceedings.

**Question 8. Reduced remedies for infringement**

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

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

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

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

Question 9. Divisional innovation patents
What your experiences in dealing with divisional innovation patents?
If you have filed a divisional innovation patent, why did you file it?
Do you have any comments on the impact on competition and innovation that might arise from patentees who fast track the grant and issuance of a certificate of examination for a divisional innovation patent?

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

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

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

Question 10. Lost opportunities
Did you know that applicants for standard patents can convert their application into an innovation patent if they have problems with inventive step during the patent examination process? Would you be willing to pursue this option?

IPTA members are generally aware that applicants for standard patents can convert their application in to an innovation patent application if they have problems with inventive step during the examination process and, where appropriate, do generally advise their clients of this option. Patent applicant reactions to such advice does vary. Given delays in examination before the Australian Patent Office, there is often insufficient term left for the filing of an innovation patent to be worthwhile. This may be one reason why many standard
applications lapse during examination due to problems with inventive step without any
conversion to an innovation patent application.

**Question 11. Computing**
Should the excluded subject matter for an innovation patent be amended to include computer
software? Why or why not?

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

**Question 12. Evergreening**
Should the excluded subject matter for an innovation patent be amended to include chemical
or pharmaceutical compositions? Why or why not?

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

**Question 13. New opportunities or unintended consequences**
Are there any new opportunities for enhancing the innovation patent system? Are there any
unintended consequences arising from its implementation to date?

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

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

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

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

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

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

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<th>Question 14. Other comments</th>
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<td>Do you have any other comments?</td>
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IPTA does not have any further specific comments.

**Conclusion**

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

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

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

Yours sincerely

Greg Gurr
Convenor Patent Practice Committee
The Institute of Patent and Trade Mark Attorneys of Australia
CONFIDENTIAL COMMUNICATION

Dear Sir


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

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

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

Following discussions with the Director General of IP Australia in relation to the IPTA Consultation Paper Submission, IPTA sent a follow-up letter dated 16 November 2012 to IP Australia explaining how a modified form of the present innovative step test, based more closely on the test set out by Dixon J in Griffin v Isaacs¹, might be framed, as will be further discussed below. IPTA is not aware that ACIP has been provided with a copy of that letter, and accordingly, a copy is attached for your reference.

¹ Griffin v Isaacs (1938) 1B IPR 619
As set out in IPTA’s earlier submissions, IPTA remains of the view that the innovation patent system remains an appropriate means to stimulate innovation by Australian small to medium business enterprises and that it is an appropriate means for protecting lower level inventions that may not be entitled to standard patent protection. IPTA also believes that the innovation patent system also continues to serve the function of providing a fast route to a granted and certified patent which can be used in enforcement action in a similar manner to the former petty patent. It is important to note, since it appears often forgotten, that the original proposal by ACIP for the introduction of the innovation patent system, acknowledged, and described as “legitimate”, this important function.

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

a) the innovative threshold perhaps being set too low;

b) uncertainty resulting from delayed examination and poor quality of granted innovation patents;

c) self-filing applicants losing the opportunity to secure valid patent protection in Australia and elsewhere as a result of early publication of their deficient innovation patent specifications; and

d) a broader lack of understanding of the innovation patent system.

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

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

e) amending the innovation patent test to more closely align with the test set out in Griffin v Isaacs;

f) restricting any award of damages or account of profits to being from the date of certification of an innovation patent;

g) conducting examination of matters under section 40 of the Patents Act 1990 (“the Act”) prior to grant; and

h) changing the name of the right afforded by the grant of an innovation patent, perhaps to “innovation patent application”, “innovation registration” or “innovation certificate”.

**Submissions on Options**

IPTA’s submissions below are limited to discussion of the various options set out in chapter 5 of the ACIP Options Paper, including further explanation of the suggestions above. For ease of cross-reference, IPTA has adopted the same section numbering as in the ACIP Options Paper.
5.4 Option A – No Change
Option A set out in section 5.4 of the ACIP Options Paper is for no changes to be made to the present innovation patent system. The reasons put forward supporting Option A are that substantial changes have recently been made to innovation patent legislation by way of the *Raising the Bar Act* and that Australian individuals and SMEs already perceive that the innovation patent system is generally satisfying their needs.

IPTA does not support Option A.

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

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

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

IPTA does not support Option B.

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

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

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

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

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

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

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

5.6.2 Raise the Level of Innovation

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

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\(^2\) Dura-Post (Australia) Pty Ltd v Delnorth Pty Ltd (2009) 81 IPR 480 at 498

\(^3\) Delnorth Pty Ltd v Duro-Post (Aust) Pty Ltd (2008) 78 IPR 209, Delnorth Pty Ltd v Commissioner of Patents (2013) 100 IPR 175
Concerns have been raised, particularly in the IPAus Consultation Paper, that innovation patents inappropriately provide protection for obvious innovations. The innovation patent system, however, was specifically designed to protect lower level inventions that are obvious, as is discussed in some detail in the IPTA Consultation Paper submission, which will again not be repeated here.

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

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

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

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

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

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

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⁴ Supra, at para [59]
This is the approach taken by Gyles J, in the Delnorth case, when assessing the differences in the material of the post defined in the Delnorth patents and that of the plastic post disclosed in the prior art. Specifically, Gyles J stated:

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

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

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

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

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

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2 Supra, at para [63]
As acknowledged in the ACIP Options Paper, an alternative test IPTA has suggested is to apply the inventive step test that was applicable under the Patents Act 1952, assessing whether the invention claimed would have been obvious having regard to common general knowledge only. Whilst IPTA does prefer the modified form of the Griffin v Isaacs test as discussed above, this alternative suggestion would still be acceptable to IPTA, particularly given that this test would have a degree of certainty. Concerns are raised in the ACIP Options Paper that current practices relating to quick retrieval and use of digital information would generate difficulties in distinguishing between what is generally known and what can be readily converted into what is known. IPTA does not, however, perceive particular difficulty in this regard. The fact that information is readily available and able to be converted into what is known does not result in such information forming part of the common general knowledge.

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

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

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

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

The alternate option provided of reducing the term of injunctive relief by an amount equal to the delay in seeking certification also has some merit, however IPTA suggests an alternative, but similar, option.
In particular, IPTA suggests that an award of damages or an account of profits should only be available from the date of certification. This would encourage patentees to seek early certification of innovation patents that are of particular commercial value, significantly reducing the uncertainty to the public. Following the recent decision of Middleton J in *Britax v Infa-Secure*[^5], damages or an account of profits are potentially available back to the filing date of the parent application from which any divisional innovation patent claims priority. This is particularly problematic given that, since implementation of the *Raising the Bar Act*, divisional applications (including divisional innovation patent applications) can be filed in respect of subject matter that is enabled by, yet not supported by, the disclosure of a parent application. Accordingly, a divisional innovation patent can validly be granted on the basis of an incidental disclosure, perhaps in a drawing only, of a parent application without any support being provided. A third party, having conducted due diligence and identifying that a particular application does not pose a particular infringement risk, could be faced with an award of damages dating back several years prior to claims directed to the infringing product being introduced into any divisional innovation patent during the certification process. Apart from this problem with divisional innovation patents, the fact that innovation patents can be granted without any claims defining the invention, with claims only being added during the certification process, makes it particularly difficult for third parties to assess infringement risks. IPTA suggests that only making damages or an account of profit available from the date of certification will largely address this problem.

### 5.6.4 Limit the Monopoly

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

IPTA does not support this proposal.

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

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

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

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

[^5]: *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd* (No. 3) [2012] FCA 1019

(7919998v1):JAA
Reducing uncertainty could of course best be achieved by ensuring full examination of innovation patent applications prior to grant. However the significant resulting increase in up-front costs for applicants would greatly reduce the incentive for SMEs to use the innovation patent system. Full examination upon filing would also be significantly inconsistent with examination of standard patent applications, which are typically not examined until five years or more from filing.

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

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

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

Whilst IPTA acknowledges that conducting a limited form of examination prior to grant would increase IP Australia’s cost in pre-grant processing of innovation patent applications, IPTA expects that this could be largely covered with a moderate increase in the filing fee. Further, to reduce the potential inefficiency of a piece meal examination, examining for section 40 compliance prior to grant and for patentability during post-grant certification examination, patent applicants could be provided with an option of having full examination (including of patentability issues) conducted prior to grant, at the same time as the examination for section 40 compliance. This would result in concurrent grant and certification. An appropriate fee structure could be set whereby seeking both grant and certification at the time of filing would attract a lesser official fee than a combination of a filing fee and later post-grant examination fee. This would again have the effect of further reducing uncertainty, promoting earlier certification.
Whilst the alternate option suggested in the ACIP Options Paper of compulsory examination within three years of the date of grant may have some merit, it would not address the self-disclosure issue discussed above, and the desired increase in full examination of innovation patents might otherwise be achieved by restricting awards of damages or account of profits from certification, as discussed above.

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

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

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

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

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

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

IPTA does not support any broadening of the list of exclusions.
IPTA submits that any subject matter that satisfies the requirements of a manner of manufacture under section 18(1)(A) of the Act should be considered suitable subject matter for innovation patent protection. The present flexible manner of manufacture test is greatly preferred over potentially arbitrary lists of specific exclusions from available patentable subject matter, which IPTA expects would largely be driven by lobby groups such as generic pharmaceuticals groups and computer software industry, as is reflected in the ACIP Options Paper.

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

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

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

IPTA similarly sees no basis for excluding software from the list of patentable subject matter. Whilst the ACIP Options Paper states ACIP's belief that software patents require a comparatively low-level of financial contribution by an innovator, the same can be said for many forms of lower level invention that are suitable subject matter for an innovation patent. Even if software per se were to be excluded from the list of patentable subject matter, IPTA would expect that IP
professionals will be able to develop successful work arounds when drafting claims so as to avoid the specific exclusion, as is presently the case in various jurisdictions.

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

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

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

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

Yours sincerely

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