

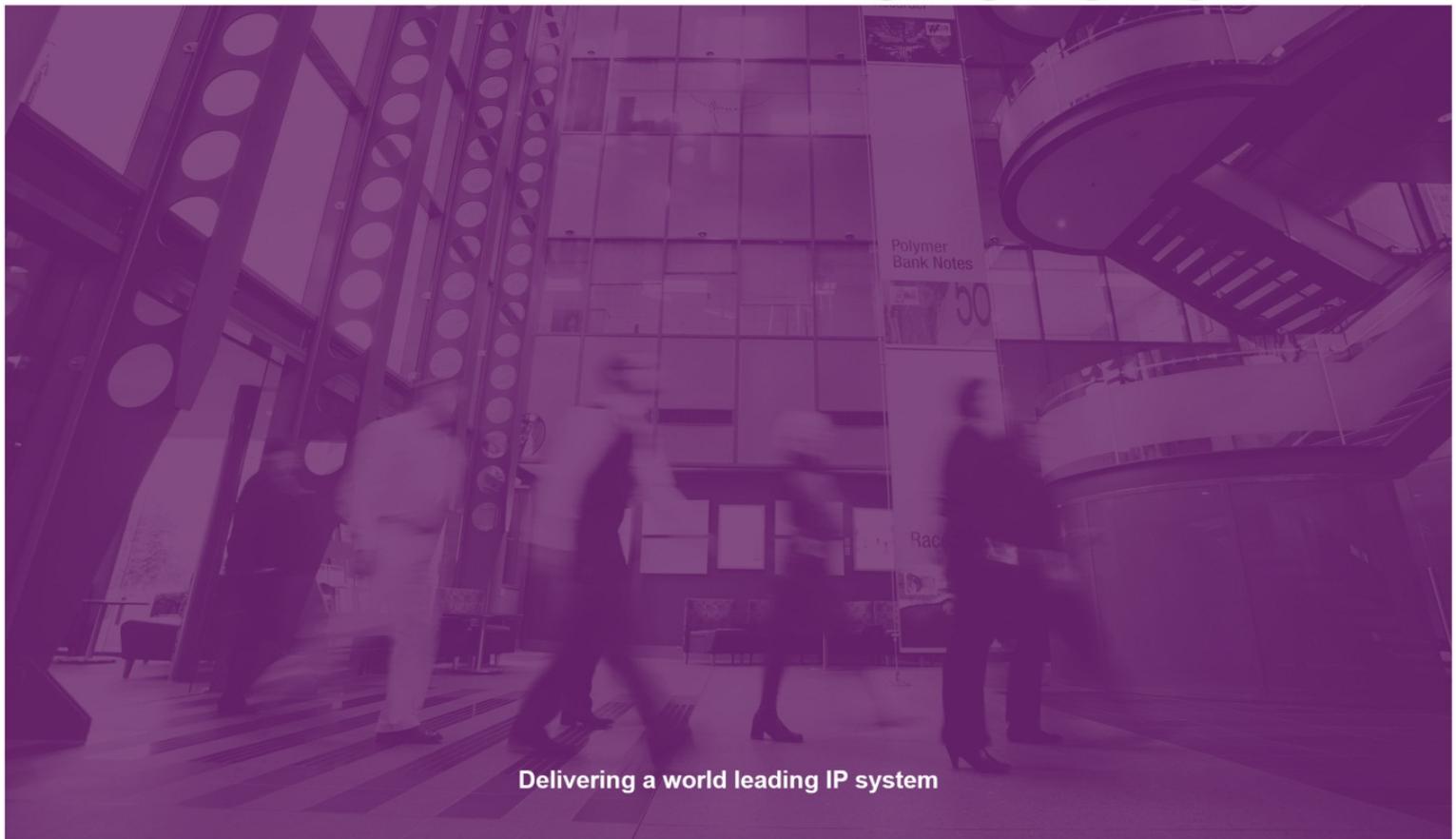


Australian Government

IP Australia

# Submission to the Productivity Commission Inquiry into Australia's Intellectual Property Arrangements

3 June 2016



Delivering a world leading IP system

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# Contents

Preface .....	1
Overarching comments .....	1
The patent system – focussing on the fundamentals.....	5
Draft recommendation 6.1 – Inventive step test.....	5
Draft recommendation 6.2 – Objects clause .....	7
Information request 6.1 – Reforming patent filing processes .....	9
Draft recommendation 6.3 – Patent renewal fees .....	10
Information request 6.2 – Experimental use exemption .....	11
Business Method and Software Patents.....	13
Recommendation 8.1 – Business methods and software .....	13
Information request 8.1 – Contribution of embedded software in an invention .....	14
Pharmaceutical Patents .....	14
Draft recommendation 9.5 – Section 76A of the Patents Act .....	14
Registered Designs.....	15
Draft recommendation 10.1 – Hague Agreement.....	15
Trade Marks.....	15
Trade mark cluttering.....	15
Draft recommendation 11.1 .....	17
Plant Breeder’s Rights .....	20
Information request 12.1 – Patent ‘sniping’.....	20
IP Institutional and Governance Arrangements .....	21
International Cooperation in IP.....	23
Finding 17.1 and draft recommendation 17.1 – Focus on multilateral fora .....	23
Information request 17.1.....	23
Compliance and Enforcement of IP Rights.....	26
Information request 18.1 – Enhance the role of the FCC on IP matters .....	26
Attachment A .....	27
Comparing EPO and IP Australia patent examination outcomes .....	27
Attachment B .....	29
Business Method Patents and Software Patents .....	29
Attachment C .....	32
Trade mark cluttering as a result of de-registered firms .....	32

# Preface

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IP Australia is pleased to make this submission to the Productivity Commission's inquiry into Australia's intellectual property (IP) arrangements, following the release of the draft report on 29 April 2016. This submission does not endeavour to repeat information provided in our [earlier submission](#) to the issues paper on 30 November 2015, but seeks to provide additional information and clarification where possible to help inform the Commission's consideration of the issues raised in the draft report. We also note that this submission is provided during the caretaker period of government, and should not be taken in any way as seeking to bind the incoming government nor limit its freedom of action. In this context, comments included address administrative and operational matters and do not address areas of government policy. The structure of this submission broadly follows the structure of the draft report, and references to 'IP' and the 'IP system' are generally directed at the rights administered by IP Australia (patents, trade marks, designs and plant breeder's rights), unless otherwise indicated.

## Overarching comments

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IP Australia is keen to assist the Commission in its inquiry and supports its principled and evidence-based approach. IP Australia welcomes the draft report's focus on the value of evidence-based policy making and its recognition of the key role of good technical advice in IP policy development. As such, this submission seeks to provide the Commission with additional information and perspectives on areas highlighted in the draft report. IP Australia also appreciates the Commission's view on the important role that IP rights play in the modern global economy.

The overall conclusion of the draft report is that Australia's IP arrangements fail to strike an efficient balance between incentives for innovators and costs to users, particularly in the context of Australia being a significant net importer of technology. IP Australia would question whether the draft report is too focussed on optimising toward the *status quo* and not sufficiently focussed on an IP system optimised to promote future opportunities for economic growth.

As others have observed,<sup>1</sup> the draft report takes a somewhat static view of both the benefits that IP rights provide and the environment in which the IP system operates. It is generally acknowledged that traditional sources of economic growth, such as the manufacturing and resources sectors, will not be adequate to maintain Australian living standards into the future. In addition, disruptive technologies, enabled by developments such as artificial intelligence, the internet of things and big data, will be sources of future opportunities (and threats) to the Australian economy. It is not clear that the draft report frames its view of the IP system in this context. Shifting the balance of the IP system so that incentives are weakened could act as a barrier to Australia capitalising on future economic opportunities.

It is certainly the case that Australia is a significant net importer of IP (like most countries in the world), but this may not always be the case, as the degree to which Australia is a net importer may decrease over time. Data from the Organisation for Economic Co-operation and Development

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<sup>1</sup> For example, <http://www.afr.com/news/economy/wto-chief-economist-challenges-productivity-commission-view-on-ip-20160518-goxyypf>, accessed 23 May 2016.

(OECD) shows that Australia is currently a net exporter of IP to non-OECD countries.<sup>2</sup> The globalisation of value chains means that Australian brands, designs and inventions have the opportunity to play a growing role in the global economy. As a developed economy, and the 12th largest economy in the world in 2015,<sup>3</sup> having access to the latest technology and developing cutting-edge innovation relies on a world-standard system for IP protection. As noted by the Commission, Australia has a highly ranked IP system by most metrics and the Australian Bureau of Statistics has previously reported that the smallest barrier to innovation for Australian businesses (amongst the measures considered) is a lack of access to technology.<sup>4</sup>

IP Australia supports the draft report's observation that the IP system should be *effective, efficient, adaptable* and *accountable*, and that policy formulation should be informed by these principles. IP Australia suggests that the 'adaptability' principle could recognise that the IP system should be agile enough to respond both reactively and proactively.

The draft report suggests that the patent system could be improved by a clear statement of the overall objective of the system. It proposes that this objective should be to encourage 'socially valuable' innovations. From an economic standpoint, social value and welfare are usually regarded as consumer surplus, or the price that consumers are willing to pay for a product or service. In this context, any invention which meets the patenting threshold and can be marketed has social value. Technology that improves dog toys,<sup>5</sup> for example, can enjoy bigger markets than specialised medical devices. Where a patent fosters innovation and encourages the disclosure of technology, what is the economic argument for restricting its application? As an economic tool, IP Australia suggests that the patent system should let the market place ultimately decide what is socially valuable.

In this regard, the Government has previously committed to introducing an objects clause into the *Patents Act 1990* to clarify the objectives of the legislation. IP Australia has undertaken consultation on this issue and details of previous proposals and stakeholder views are provided later in this submission. An objects clause, consistent with the Commission's view that the IP system should support the well-being of Australians and seek to further innovation, could be a useful addition to the Patents Act. We would, however, question the viability and practicality of requiring the Commissioner of Patents to have regard to the objects clause in addition to the Courts. This could require each examiner to make subjective judgements on patent applications that extend far beyond technical matters. IP Australia understands that such an approach would be beyond what any other jurisdiction currently undertakes, and risks adding significant costs to the patent system in terms of regulatory burden and uncertainty.

We believe that there are opportunities for improvements in the system to assist in ensuring that IP right holders, particularly small businesses, are able to effectively make use of IP enforcement mechanisms. The draft report acknowledges that enforcement is a key factor in the overall effectiveness and efficiency of the IP system and recommends exploring reforms and streamlining the Courts in this regard. IP Australia would encourage the Commission to also consider whether

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<sup>2</sup> <https://www.ipaustralia.gov.au/sites/g/files/net856/f/intellectual-property-report-2014-low-res.pdf>

<sup>3</sup> <http://www.austrade.gov.au/International/Invest/Resources/Benchmark-Report>, accessed 23 May 2016.

<sup>4</sup> <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/8158.0Main%20Features42012-13?opendocument&tabname=Summary&prodno=8158.0&issue=2012-13&num=&view=>, accessed 23 May 2016.

<sup>5</sup> <http://www.afr.com/business/legal/higher-fees-fewer-patents-and-greater-consumer-protections-productivity-commission-says-20160427-gogmh7>, accessed 23 May 2016.

further options—such as increased access to alternative dispute resolution mechanisms, infringement and validity opinions, and IP insurance—may be required to facilitate effective protection for small to medium-sized enterprises (SMEs).

IP Australia notes that, in considering implementation of the recommendations in the draft report, further information on their potential impact would be valuable. We are hopeful that submissions on the draft report may assist in providing further information and evidence in this regard. Where evidence is lacking, it may be preferable to monitor and collect data or conduct relevant research before embarking on change.

The draft report makes a number of statements on the ease with which patents are granted in Australia as opposed to other jurisdictions, especially the European Patent Office (EPO). IP Australia considers that this conclusion may be drawn without sufficient evidence, and has provided data in Attachment A on the outcomes from cross-filed patents, which indicate that three-quarters of decisions between offices are equivalent, but many applications are still pending. One objective of the reforms made by the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (the Raising the Bar reforms) was to align patentability standards more closely with Europe and other major trading partners. The full impact of these reforms is yet to flow through the system, making it pre-emptive at this time to evaluate their effect. More time is required to adequately assess the impact of these new patentability standards and arguably this should occur before further changes are made.

The draft report groups business method patents and software patents together, inferring that they are equivalent technology types and should be dealt with in the same manner. In IP Australia's experience, and as the data in Attachment B shows, this is not the case – business methods and software are quite distinct. Given the High Court of Australia recently indicated that the Full Federal Court of Australia decision in the *RPL Central Ltd* case was 'plainly correct' and refused leave to appeal this decision,<sup>6</sup> the patentability of business schemes and methods, whether or not computer implemented, is now more settled in Australia. That is, they are generally not patentable unless they involve technical innovation. Software is a much broader and more complex issue and the effects of removing patent rights are less clear. New and disruptive technologies, such as blockchain technology and the internet of things, have significant economic potential and it is unclear what impact broadly excluding software from patentable subject matter would have on development and accessibility of these technologies in Australia. Software is also involved in implementing valuable innovations in fields such as mining, aerospace, automotive and biotechnologies. While the draft report suggests that patents in this space relate to shorter product cycles, we note that patents in these technology classes are on average renewed for longer than the average, as detailed further below. We also note that the data presented in the draft report highlights a recent dip in United States (US) origin patent applications in Australia for 'business methods and software' in 2014, following the US Supreme Court case *Alice Corporation Pty Ltd v CLS Bank International*. The latest data suggests applications for this technology have rebounded in 2015 (Attachment B).

IP Australia considers that drawing a line around software patents is not as straightforward as the draft report suggests. Briefly, the practice in Australia currently aligns quite closely with both European and US practice, which is not to say change cannot be effected, but it is not without risk. For example, the technology-neutrality and hence the *adaptability* of the patent system to new technologies is affected by introducing prescriptive technology-specific exclusions. Such a move

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<sup>6</sup> *RPL Central Ltd v Commissioner of Patents* [2016] HCASL 84

may be counterproductive in the Australian context, noting that in 2000 the Ergas Committee concluded that 'Australia has on the whole benefited from the adaptiveness and flexibility that has characterised the "manner of manufacture" test'.<sup>7</sup> The Committee further observed that prescriptive *ex ante* rules:

...can create significant error costs associated with the under or over-inclusiveness of the rules. These errors can have substantial consequences for efficiency and competition, since under-inclusiveness may erode the incentive for innovation (and as a result for the uniquely effective form of competition that innovation provides), while over-inclusiveness may grant exclusive privileges where they are not warranted.<sup>8</sup>

The draft report includes some recommendations relating to fees for IP rights. IP Australia has long sought to set its fees in the broad manner suggested by the draft report. Application fees are set relatively low so as not to form a barrier to the use of IP rights, while renewal fees increase over time to allow cost recovery and discourage rights holders from maintaining rights that have low private value. IP Australia has observed that the responsiveness to renewal fee changes is very low. As such, it is not clear that increasing renewal fees within the parameters of the cost-recovery framework would have any significant impact on renewal behaviour. In the case of patents, more than 90 per cent of patent renewals after the 10th year are by multi-national firms who are unlikely to change their renewal behaviour on the basis of small fee changes.

In relation to the trade marks system, the view of the draft report on 'cluttering' appears to be based on a small amount of stakeholder feedback and the view that the number of classes on the trade mark register represents clutter, rather than active business choices. As detailed below, IP Australia welcomes the Commission's analysis of this matter but highlights areas for further consideration.

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<sup>7</sup> Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000), p. 16.

<sup>8</sup> Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000), p. 149.

# The patent system – focussing on the fundamentals

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## Draft recommendation 6.1 – Inventive step test

The draft report suggests that the current interpretation of inventive step appears to set the bar too low, and recommends adopting language similar to Article 56 of the European Patent Convention 1973. As mentioned above, it will be a number of years before the full effects of the legislative changes in the Raising the Bar reforms will be felt, and given the respective work-fronts of IP Australia and the EPO, the EPO is unlikely to examine significant numbers of cross-filed applications for a number of years. As such, reviewing and comparing the inventive step test appears pre-emptive at this point in time.

### Impact of Raising the Bar reforms

The Raising the Bar reforms increased Australia's alignment with our major trading partners, including Europe, and raised patent standards. As the Commission notes, while other reforms were made to the scope of the prior art base and the common general knowledge used in the inventive step test, the threshold test itself was not changed. The threshold test was not reformed because, after consultation, it was decided that Australia's current threshold test was already substantially similar to Europe.

Academic literature comparing outcomes between Australia and Europe considers the pre-Raising the Bar situation with mixed findings.<sup>9</sup> IP Australia has also conducted a basic analysis (see Attachment A) comparing outcomes for patent applications filed at IP Australia and the EPO between 2003 and 2013 (pre-Raising the Bar). This analysis suggests that the offices tend to come to the same conclusion, noting that the scope of the granted claims in each jurisdiction was not considered. Approximately three-quarters of applications examined by both offices have the same decision. Of the remaining 25-30 per cent of cases where the jurisdictions disagree, approximately two-thirds of the cases include Australia granting a patent and the EPO not, and one third of cases include the EPO granting a patent and Australia not. A large number of more recent patent applications remain pending in the EPO, while IP Australia has completed examination.

Given the significant changes made by the Raising the Bar reforms to the patent standards, the Commission may wish to consider whether it would be prudent to wait until the full impact of the Raising the Bar changes can be assessed before further reforms are recommended, given there appears to be a lack of evidence at this stage. Many of the first tranche of post-Raising the Bar applications are still under examination, and there is yet to be relevant consideration by the Courts. IP Australia would encourage the Commission to consider these statistics and to look at the data, before coming to a conclusion that EPO practice diverges strongly from the Australian practice.

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<sup>9</sup> See, for example: Jensen, P., Palangkaraya, A. and E. Webster (2008) 'Application Pendency Times and Outcomes across Four Patent Offices', Melbourne Institute Working Paper Series Working Paper No. 6/08; Jensen, P., Palangkaraya, A. and E. Webster (2014) 'Patent examination outcomes and the national treatment principle', *The RAND Journal of Economics*, 45(2); de la Potterie, B. V. P. (2011) 'The quality factor in patent systems.' *Industrial and Corporate Change*, 20(6); de Saint-Georges, M., and B. van Pottelsberghe de la Potterie. (2013) 'A quality index for patent systems.' *Research policy* 42.3; Christie, A., Dent, C. and A. Lim, (2013) 'An Empirical Comparison of the Outcome of Patent Examination in the USPTO, the EPO and IP Australia', TILEC Conference 2013.

Additionally, as the draft report notes, IP Australia is conducting a pilot quality and benchmarking review process with the Vancouver Group (Canada and the United Kingdom (UK)). While this and other research on applications post-Raising the Bar application may assist in assessing the Australian inventive step standard, the results are not likely to be known for some time.<sup>10</sup>

### The current inventive step standard

Fundamentally, the inventive step requirement in all major jurisdictions considers whether a claimed invention is obvious to a hypothetical person skilled in the art and asks what that person would do given assumed skills and knowledge relevant to the particular circumstances of the case. The assumed skill and knowledge incorporates what is the common general knowledge in the art, and the prior art base. Indeed, the basic concept of obviousness is already similar between Australia and Europe and only diverges in the way the tests and sub-tests are applied. In line with the High Court of Australia in *Aktiebolaget Hässle v Alphapharm Pty Limited* [2002] HCA 59, a finding of obviousness is permissible where the hypothetical person skilled in the art would be directly led as a matter of course to try a particular solution in the expectation of success. Although the European case law does not use the language ‘directly led as a matter of course’, in practice the interpretation of the European ‘obvious to try’ test is similar, in that the relevant question is what the person skilled in the art *would* have tried, not what they *could* have tried.<sup>11</sup>

The draft report suggests that the way that section 7 of the *Patents Act 1990* is worded imposes a reverse onus of proof. It is not clear that this is the case, since the onus of proof is governed by other aspects of the Patents Act and general law. For example, during examination, paragraph 49(1)(b) of the Patents Act places the onus on the applicant to satisfy the Commissioner of Patents, on the balance of probabilities, that the invention satisfies the criteria in paragraph 18(1)(b) (including that the invention must involve an inventive step). Amending the language of section 7 would likely not affect the general rule that the applicant must satisfy the Commissioner of Patents that the application should be accepted.

The draft report further suggests that the High Court’s requirement that an invention need only possess a ‘scintilla’ of invention lowers the inventive step requirement. However, the High Court’s wording must be taken in context. The question of obviousness is not one of degree, the threshold to be met is whether or not a claimed invention is obvious to a hypothetical person skilled in the art. For example, in *Cronk v Commissioner of Patents* [2014] FCA 37 (based on pre-Raising the Bar legislation) an appeal of an examination decision on inventive step was rejected despite the applicant suggesting that the law imposed a low threshold. The Federal Court found in light of the common general knowledge and the prior art base that it would be a matter of routine to try or use mechanisms known in the art with a view to seeking to solve the problem addressed by the application. On the question of onus, the Court further concluded, at [103], that the applicant’s evidence did not establish the application involved an inventive step.

In practice, the substance of the Australian and European tests as they are applied is similar. It is common for patent examiners in both jurisdictions to take and maintain inventive step objections. Furthermore, patents have been successfully revoked in the courts on the basis of lack of inventive

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<sup>10</sup> While the Vancouver Group work is expected to be reviewed early in 2017, a robust empirical comparison of examination outcomes between Australia and Europe is not likely to be feasible for at least 2 years, due to examination pendency in Europe and the atypical examination request patterns in Australia immediately before and after the commencement of the Raising the Bar reforms.

<sup>11</sup> [http://www.epo.org/law-practice/legal-texts/html/caselaw/2013/e/clar\\_id\\_5.htm](http://www.epo.org/law-practice/legal-texts/html/caselaw/2013/e/clar_id_5.htm), accessed 30 May 2016.

step, thereby showing that it can be demonstrated that an inventive step is lacking. An example of this is *AstraZeneca AB v Apotex Pty Ltd* [2015] HCA 30, where a challenge on the basis of inventive step was successful based on the pre-Raising the Bar legislation. The draft report also commented that the existing Australian provision is more complex and prescriptive than some other jurisdictions. Australia's legislation may appear more complex and prescriptive on its face because the legislative provisions specify what constitutes the prior art base, how the person skilled in the art must consider the prior art base, and the geographical ambit of the common general knowledge. In practice, the case law for other jurisdictions, and therefore examination practice, still includes complex rules for dealing with the person skilled in the art, common general knowledge and prior art base, despite the apparent simplicity of their legislative tests.<sup>12</sup>

If the Commission considers that changes are required at this point, there are other options (apart from mirroring the European test) that may provide better alternatives. For example, amendments could be made specifying the 'obvious to try' test in the legislation (as initially proposed early in the Raising the Bar consultation). The advantage of this would be to ensure that Australian courts apply the 'obvious to try' test without losing the existing body of case law that governs other aspects of the inventive step test, albeit by introducing significant uncertainty into the system.

## Draft recommendation 6.2 – Objects clause

IP Australia welcomes this draft recommendation and notes that the Government has previously accepted a recommendation made by the former Advisory Council on Intellectual Property (ACIP)<sup>13</sup> to introduce an objects clause to the Patents Act. The purpose of an objects clause is to set out the underlying purpose of a piece of legislation. As such, an objects clause could provide guidance to the community on the purposes of the Patents Act and assist the Courts in interpreting the legislation. In its report, ACIP explained that an objects clause 'would clarify the interaction between the patent system and competition policy'.<sup>14</sup> IP Australia notes that careful consideration needs to be given to the wording to be used and how the clause would operate in practice and we offer the following information to assist the Commission in its analysis of this matter.

IP Australia undertook a consultation process on the wording of an objects clause in 2013 and received mixed views from stakeholders. The consultation paper proposed the following two options:

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

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<sup>12</sup> The US has an extensive list of factors to consider (the John Deere questions) – see <http://www.uspto.gov/web/offices/pac/mpep/s2141.html> Part II. Likewise the EPO has a prescriptive approach to the Problem-Solution test – see [http://www.epo.org/law-practice/legal-texts/html/guidelines/e/g\\_vii\\_5.htm](http://www.epo.org/law-practice/legal-texts/html/guidelines/e/g_vii_5.htm).

<sup>13</sup> ACIP Review of Patentable Subject Matter. Final Report, December 2010.

<sup>14</sup> ACIP Review of Patentable Subject Matter. Final Report, December 2010, p. 3.

Of the 23 submissions which commented on the objects clause, 13 supported Option 2 (some with reservations), eight did not wish either option to be used and two submissions suggested using wording more consistent with the TRIPS Agreement, which states:

The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.<sup>15</sup>

The draft report suggests that the objects clause should refer to 'socially valuable innovations'. While 'socially valuable' may have a specific economic meaning, it is unclear how the phrase would be interpreted in legislation or applied. From an administrative perspective, it would be preferable to avoid using terminology that could be subjective and potentially applied inconsistently and IP Australia would welcome further guidance from the Commission on this matter. The following discussion is intended to highlight some issues that may be relevant to the Commission's consideration of this issue.

Patents for seemingly trivial items are arguably still 'socially valuable' and therefore worthy of patent protection. The manufacture of a new toy may create jobs, increase business investment and improve consumer confidence and satisfaction, all of which make a positive contribution to society. The patent system has both economic and social welfare goals, as reflected for example in the TRIPS Agreement objectives. Other countries which have an objects clause, such as New Zealand, Japan, and Korea, do not refer to the social value of a patent. In general terms, these clauses refer to the promotion of innovation and economic growth, the development and dissemination of technology for the benefit of the public, or to develop and promote industry.

While the Courts would have regard to the objects clause, IP Australia considers that it would not be effective nor practical for the Commissioner of Patents to have regard to the objects clause when making decisions under the legislation. Patent examiners, in their capacity as delegates of the Commissioner, may not be well-placed to effectively determine whether Australian wellbeing will be enhanced in relation to a particular patent application. This is particularly relevant as patents are typically filed very early in the technology development lifecycle, when the commercial application and eventual use of inventions may not be fully known to the examiner, or even the applicant.

Should the Commission have a view that 'social value' implies a need for a moral judgement, IP Australia considers that the following information might be of interest. The introduction of a 'morality clause' in the Patents Act was another recommendation in ACIP's *Review of Patentable Subject Matter*, which the Government accepted, and IP Australia released a consultation paper in 2013.<sup>16</sup> Such a clause would exclude from patentability inventions where society would have a moral objection to commercialisation of the product or service. This may include exclusions to protect human, animal or plant life or health, or to avoid serious prejudice to the environment.

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<sup>15</sup> TRIPS Agreement Article 7(2).

<sup>16</sup> <https://www.ipaustralia.gov.au/about-us/public-consultations/consultation-proposed-objects-clause-and-patentability-exclusion>, accessed 31 May 2016.

## Information request 6.1 – Reforming patent filing processes

IP Australia recognises the importance of the information available to patent examiners when deciding whether to grant a patent and welcomes the focus given to this matter by the Commission. In giving further consideration to this issue, IP Australia would offer the following observations about similarities and differences between the operation of the Australian and European systems.

The purpose of the European two-part form requirement is to clearly identify which features of the invention are part of the prior art. In practice, the two-part form requirement is not applied if the prior art is sufficiently clear from the indication of prior art made in the description. The European examination guidelines further state that the two-part formulation may be inappropriate in certain cases where 'it would give a distorted or misleading picture of the invention or the prior art.'<sup>17</sup> As highlighted in the draft report, relying on the applicant to explain non-obviousness could lead to a 'benchmarking bias' that conditions the subsequent search behaviour of the patent office and behaviour of follow-on innovators.

The Commissioner of Patents can and already does request that applicants articulate why their invention is non-obvious in the present examination process. The Patents Act currently requires patent examiners, as delegates of the Commissioner of Patents, to be satisfied on the balance of probabilities that the claimed invention is patentable under section 18, including that it involves an inventive step. If the examiner is not satisfied, applicants are requested to provide information explaining why their invention is not obvious. The patent application will not proceed to acceptance if the issues raised by the examiner are not addressed. On the other hand, introducing a two-part form requirement would not significantly affect applicants who already file an application in Europe with this type of claim structure. We estimate that, between 2003 and 2011, approximately 59 per cent of Australian patents had a linked European patent, while noting that slightly more (63 per cent) had a linked US patent.

The draft report also suggests that the scope of the claims and the nature of the invention would become clearer for follow-on innovators if the above additional information was provided. However, IP Australia considers that this benefit may already be achieved through the tightened disclosure requirements introduced by the Raising the Bar reforms. The intention of these requirements is to ensure that sufficient information is provided in the specification to enable the whole width of the claimed invention to be performed by the skilled person without undue burden, or the need for further invention. IP Australia views this as an area worthy of further detailed examination.

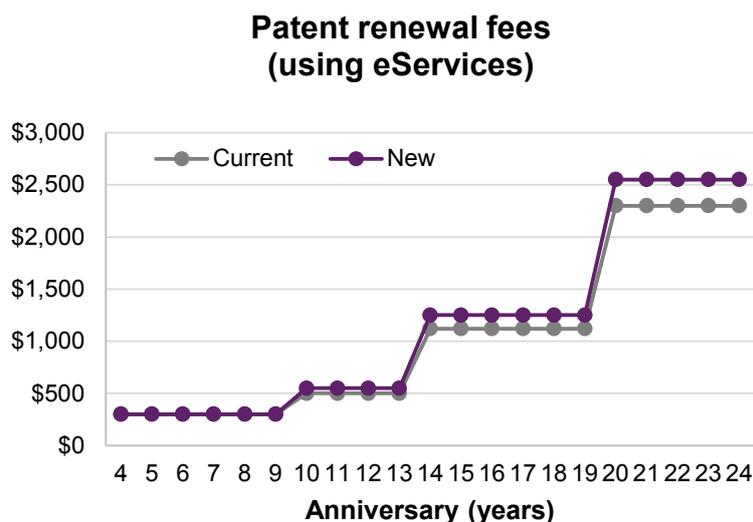
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<sup>17</sup> EPO Guidelines for Examination, Part F, Chapter IV, section 2.3 [http://www.epo.org/law-practice/legal-texts/html/guidelines/e/f\\_iv\\_2\\_3.htm](http://www.epo.org/law-practice/legal-texts/html/guidelines/e/f_iv_2_3.htm), accessed 27 May 2016.

## Draft recommendation 6.3 – Patent renewal fees

IP Australia understands the rationale underpinning draft recommendation 6.3, but notes that the inelasticity of demand and constraints imposed by cost recovery policy would present challenges to the implementation of this recommendation. The following additional information is offered to assist the Commission in its considerations.

As part of our latest fee review, a Cost Recovery Impact Statement<sup>18</sup> was released for public consultation in April-May 2016. Patent renewal fees are proposed to increase in the later years as illustrated in Figure 1. This is consistent with the intent of draft recommendation 6.3.



**Figure 1 – Patent renewal fee increases, as per IP Australia’s recent public consultation.**

As noted in the draft report, in general patent fees are inelastic, meaning that demand is minimally responsive to price. This is particularly the case for renewal of valuable patents and IP Australia highlights the following references to further support this conclusion. Estimates for Patent Cooperation Treaty (PCT) fee elasticity are around -0.03 to -0.3,<sup>19</sup> meaning that a substantial increase in fees would likely be required to have a measurable effect on renewal behaviour. Similarly for trade mark fees, the economic literature suggests that demand for trade marks is relatively price inelastic (around -0.3), so fees would have to increase significantly to see any meaningful effect.<sup>20</sup>

This is further compounded by the fact that not all applicants will respond to fee changes in the same way. It is likely that the most responsive to price would be SMEs and individual inventors. New data shows that patents that run the full 20 year term are disproportionately likely to be from overseas companies: 91 per cent account for renewals at the 20<sup>th</sup> year (Figure 2).

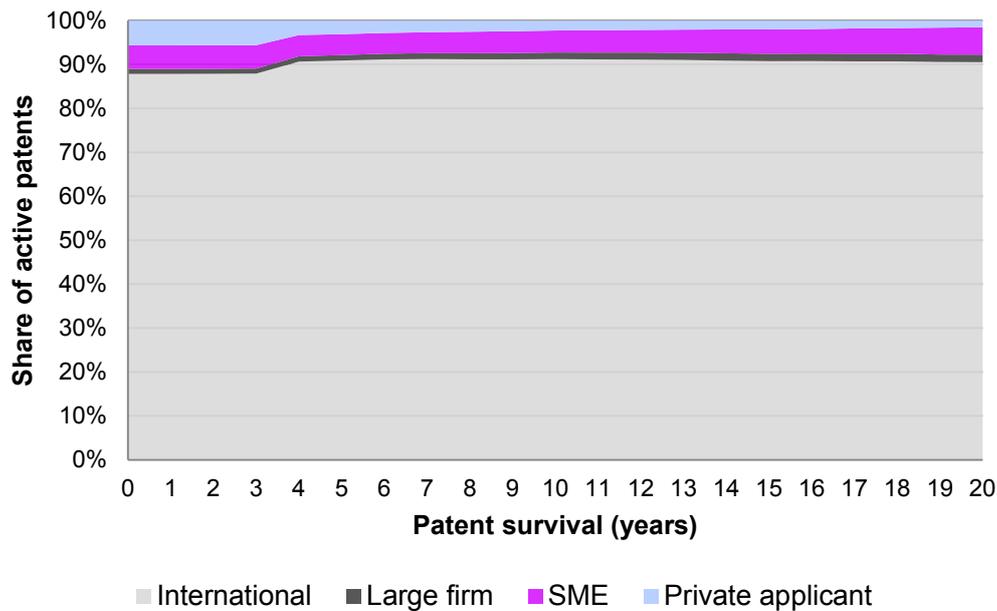
<sup>18</sup> The Cost Recovery Impact Statement can be viewed at:

[https://www.ipaustralia.gov.au/sites/g/files/net856/f/ip\\_australia\\_cris\\_fee\\_review\\_2016.pdf](https://www.ipaustralia.gov.au/sites/g/files/net856/f/ip_australia_cris_fee_review_2016.pdf)

<sup>19</sup> de Rassenfosse, Gaétan and van Pottelsberghe de la Potterie, Bruno, The Role of Fees in Patent Systems: Theory and Evidence (October 2, 2011). Journal of Economic Surveys. Available at SSRN:

<http://ssrn.com/abstract=1694924>

<sup>20</sup> de Rassenfosse, Gaétan, On the Price Elasticity of Demand for Trademarks (July 9, 2015). Available at SSRN: <http://ssrn.com/abstract=2628646> or <http://dx.doi.org/10.2139/ssrn.2628646>



**Figure 2:** Share of patents renewed at each year. 91 per cent of renewals from the 4<sup>th</sup> year on are from international firms, and a further 2 per cent are large Australian firms. (Source: IPGOD)

In addition, IP Australia is concerned that if the total fees charged to administer an activity are planned to be well over and above the total costs to administer the activity (such as patents), this would be outside the cost-recovery framework and may have potential policy and legal implications.

There are also some practical considerations that need to be addressed. In relation to claim fees, adding disincentives to large claim sets may not lead to a reduction in the scope of the monopoly granted but instead merely lead to changes in claim drafting practices. This could have the unintended consequence of making claim sets more complex and difficult to understand without necessarily reducing the scope of the monopoly claimed.

## Information request 6.2 – Experimental use exemption

The issue of an experimental use exemption is an important matter to consider if we are to foster a positive innovation culture. It has previously been considered by both the Australian Law Reform Commission (ALRC)<sup>21</sup> and ACIP<sup>22</sup> and both confirmed that the lack of a statutory exemption was creating uncertainty for the research community and recommended introduction of an explicit exemption. After careful consideration and extensive stakeholder consultation, the Raising the Bar reforms amended the Patents Act to exempt experimental activities from patent infringement. In interpreting this provision, it is intended that ‘experimental’ be given its ordinary English meaning. The exemption applies to tests, trials and procedures that a researcher or follow-on innovator undertakes as part of discovering new information, or testing a principle or supposition.

<sup>21</sup> ALRC Report 99, *Genes and Ingenuity: Gene Patenting and Human Health* (the ALRC 99 Report), published June 2004. See <https://www.alrc.gov.au/sites/default/files/pdfs/publications/ALRC99.pdf>

<sup>22</sup> ACIP, *Consideration of Patents and Experimental Use*, November 2005. See: [https://www.ipaustralia.gov.au/sites/g/files/net856/f/acip\\_final\\_report\\_patents\\_and\\_experimental\\_use\\_archive\\_d.pdf](https://www.ipaustralia.gov.au/sites/g/files/net856/f/acip_final_report_patents_and_experimental_use_archive_d.pdf)

The exemption does not only relate to activities undertaken solely for experimental purposes. Rather, the exemption should apply as long as the specific acts are undertaken for the predominant purpose of gaining new knowledge, or testing a principle or supposition about the invention. Thus, if an activity is conducted primarily for the purpose of improving a patented invention, the activity would still be exempt, even if the person also had in mind commercialising the improvement in the future.

The exemption is not, however, intended to apply where the main purpose of the act is to commercialise the invention, or to manufacture it for the purpose of sale or use it for commercial purposes. Additionally, 'market research' on a patented invention (e.g. making and using the invention to test the likely commercial demand for a product) is not intended to be exempt, as this too has a predominantly commercial purpose. The exemption is also not intended to exempt the use of patented 'research tools' from infringement. A 'research tool' is something that is used to facilitate an experiment, rather than something that is the subject of an experiment. For example, a researcher testing the effect of a particular herbicide on different plants might use a patented wetting agent to facilitate uptake of the herbicide. Here use of the wetting agent should not be exempt from infringement. The wetting agent is being used as a tool: the experiments do not relate to it.

Research tools are often used exclusively or primarily in research. The use of research tools *per se* was not excluded because if an experimental use exemption was to apply to such tools it would substantially diminish the economic incentive to develop better research tools. To our knowledge, there is no evidence that not exempting research tools stifles research or innovation.

According to a document prepared in 2013 by the Standing Committee on the Law of Patents (SCP),<sup>23</sup> there are at least 73 other countries in which there are exceptions and limitations relating to experimental use and/or scientific research. Some of these countries, such as the US, have a narrower definition than Australia of what experimental activities are exempt, and others, such as Mexico, have a broader definition of exempt experimental activities.<sup>24</sup>

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<sup>23</sup> [http://www.wipo.int/edocs/mdocs/patent\\_policy/en/scp\\_20/scp\\_20\\_4.pdf](http://www.wipo.int/edocs/mdocs/patent_policy/en/scp_20/scp_20_4.pdf)

<sup>24</sup> For more information see the [SCP Report on Experimental Use and/or Scientific Research](#) and the [Questionnaire on Exceptions and Limitations to Patent Rights](http://www.wipo.int/scp/en/exceptions) <http://www.wipo.int/scp/en/exceptions>

# Business Method and Software Patents

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## Recommendation 8.1 – Business methods and software

The Australian patent system has to date taken a technology neutral approach by not prescriptively defining patentable subject matter in legislation. The Ergas Committee concluded that ‘Australia has on the whole benefited from the adaptiveness and flexibility that has characterised the “manner of manufacture” test.’<sup>25</sup> Adoption of technology-specific exclusions in the Patents Act should be approached with caution but, in a debate about the operation of the system, is worth consideration.

### Defining software and business methods

The draft report refers to business method patents and software patents together, as a single category of ‘business method and software patents’. It is important to carefully distinguish what ‘software’ patents are being considered. When comparing the technology classes that the Commission defines as business methods and software, the data suggests that there is very little overlap between the two technologies in patent applications filed with IP Australia. Attachment B provides indicative data for this split, with only 10 per cent of applications appearing to overlap. It may therefore be advisable to deal with business methods and software as separate issues.

Most business processes are not critically dependent upon software, and most software does not implement any business process. As has been observed elsewhere,<sup>26</sup> the majority of important code in the world (code that requires large investments in research, development, coding and testing) is not to be found in smartphone apps or on e-commerce sites. Inventions in a wide range of technical fields are implemented in software and, depending on the application, may raise very different economic considerations. For example CSIRO’s ‘WiFi’ patent does not concern software *per se*, but is related to and implemented by software. Similarly, an industrial control system or system for processing mining exploration data may involve very technical innovation but be expressed in software. This is the sort of high value invention that should arguably be incentivised by the patent system. It is also important to note that many software-related patents do not involve a business method. We have made comments below in relation to information request 8.1 to the effect that we consider there are difficulties in attempting to define ‘embedded software’.

The draft report suggests that the short market life of many business method and software products is a factor against making them eligible for patent protection. To assist the Commission, IP Australia has conducted some analysis of patent renewal trends in business method patents and software patents. This is provided at Attachment B.

### Certainty in interpretation

The Full Bench of the Federal Court in *Commissioner of Patents v RPL Central Ltd* [2015] FCAFC 177 has most recently provided further clarification on the distinction between technical innovation within a business method, which is patent eligible, and business innovations, which are not. The High Court has recently refused to hear an appeal of this decision. In reaching its conclusion, the

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<sup>25</sup> Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000), p. 149.

<sup>26</sup> See commentary, for example, at <http://blog.patentology.com.au/2016/05/the-australian-productivity-commissions.html>, accessed 30 May 2016.

Court affirmed IP Australia's practice and has confirmed that the law in Australia relating to business methods is similar to that now applying in the US, Europe and other jurisdictions.

While the High Court's refusal of the *RPL Central Ltd* special leave application has confirmed the Commissioner of Patents' practice in relation to business methods implemented in software, the flexibility of the current manner of manufacture test for patentable subject matter means that it will continue to be interpreted by the Courts over time as new technologies emerge.

Adopting broad and untested exclusions would create a period of uncertainty while courts worked out new principles for applying the exclusions. If an exclusion were to be applied, to achieve certainty in this area it would be necessary to have a systematic approach. By way of example, the UK has a systematic approach to applying paragraphs 1(2)(c) and (d) of the *Patents Act 1977* (UK). These provisions exclude 'a scheme, rule or method for performing a mental act, playing a game or doing business, or a program for a computer' and 'the presentation of information' from patentable subject matter. The UK courts have developed a systematic four-step approach to applying these criteria in *Aerotel Ltd v Telco Holdings Ltd* (2006) EWCA Civ 1371. Adopting exclusions modelled on the UK provisions could provide the advantage of an existing body of common law jurisprudence that could assist Australian courts in interpreting such an exclusion.

As noted in our opening comments, there are benefits in maintaining a patent system that is flexible and able to adapt to new technologies. The risk of specific exclusions is that they may inadvertently hinder the development of current and emerging technologies in Australia (for example, blockchain technology and the internet of things) in one of the areas of our economy with great potential for growth.

## **Information request 8.1 – Contribution of embedded software in an invention**

IP Australia considers that it would be difficult to frame a workable test for 'embedded software'. The experience in New Zealand, where an attempt to define such a test was problematic, suggests that it would be extremely difficult to frame a test that provides certainty. We are not aware of any other jurisdiction that has developed a satisfactory test for distinguishing embedded software. As such, we are not convinced that such a test could be effectively codified in legislation and consider it would create a rather artificial distinction between software that is patentable and that which is not.

However, as noted in our comments on draft recommendation 8.1, there could be benefit in investigating the approaches that other jurisdictions, such as the UK, have taken to excluding business method patents and software patents. Although the UK legislation does not specifically refer to 'embedded software', it may provide a more certain methodology for distinguishing between the types of software-related inventions that should be patentable and those that should not.

# **Pharmaceutical Patents**

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## **Draft recommendation 9.5 – Section 76A of the Patents Act**

The reporting requirements in section 76A were intended to assist the Government to evaluate whether extensions of term were encouraging investment in research and development in the pharmaceutical industry. IP Australia notes that there may be other (potentially more efficient and effective) mechanisms that the Commission may wish to consider. This may include greater leveraging of new and available data, including that collected by the Australian Bureau of Statistics,

the Australian Institute of Health and Welfare, the Therapeutic Goods Administration and the Pharmaceutical Benefits Scheme.

## Registered Designs

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### Draft recommendation 10.1 – Hague Agreement

IP Australia notes the draft recommendation that any decision to join the Hague Agreement should be based on a comprehensive cost-benefit analysis. ACIP recommended that the Government monitor and only consider joining the Hague Agreement after a comprehensive cost-benefit analysis in its *Review of the Designs System*. The Government has recently accepted this recommendation,<sup>27</sup> and IP Australia has commenced research into the costs and benefits of joining this agreement.

## Trade Marks

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### Trade mark cluttering

The draft report identifies trade mark cluttering as a problem that should be addressed to improve the effectiveness of the trade mark system, particularly by making it more accessible for new entrants. Clutter is defined in the draft report as the result of firms registering trade marks ‘over a wider range of elements and classes than is necessary’ and it is suggested that a ‘lax’ system with lower hurdles for registration encourages this outcome.<sup>28</sup>

IP Australia agrees that the system should not encourage trade mark owners to seek registration for more elements and goods or services than they need. The draft report has identified that there is potential for a problem to exist, but IP Australia considers that the nature of the evidence provided in the draft report does not warrant reform at present, and instead suggests that this is an area in which more work should be done to identify the nature and extent of the problem.

The draft report largely attributes the clutter to the introduction of the presumption of registrability in the *Trade Marks Act 1995*, and suggests that this has swung the balance too far in favour of trade mark owners. Figure 11.6 in the draft report refers to the proportion of trade mark applications that are registered and identifies an increase following the introduction of the 1995 Act. IP Australia accepts that the presumption of registrability has had an impact on the proportion of trade mark applications that are accepted and notes that this is not an unexpected outcome. A deliberate decision was made to introduce a presumption of registrability with the 1995 Act because the previous legislation was seen as being too strict and arguably prevented registration of marks that should have been registrable. IP Australia considers that the increased likelihood of a trade mark application being registered is not in itself evidence that the register is cluttered.

Figure 11.7 in the draft report refers to data on the outcomes of Hearing decisions to support the argument that the trade marks register has become cluttered. The report comments that the

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<sup>27</sup> ACIP’s review and the Government response are available at <https://www.ipaustralia.gov.au/about-us/public-consultations/archive-of-ip-reviews/ip-reviews/Review-of-the-Designs-System>

<sup>28</sup> Productivity Commission, *Intellectual Property Arrangements*, Draft Report (2016) pp. 332-3.

relatively high proportion of successful oppositions suggests that due to clutter the trade mark register has become more difficult to search for conflicting marks. The data in Figure 11.7 is drawn from Trade Marks Office Hearing decisions that have been published on the Australian Legal Information Institute (AustLII) website. However, only a small proportion of hearing decisions are currently published on AustLII, so this data does not provide a complete picture. For example, as at 4 May 2016, IP Australia had issued 85 trade mark decisions since 1 January 2016 but only 25 of these have been published on AustLII. The decisions that are published are:

- decisions that involve more than one party and for which an oral hearing was conducted; and
- decisions that involve a change in examination practice or provide clarification about an area of uncertainty.

Therefore, hearings where an application is opposed by a third party account for a large proportion of those that are actually published on AustLII publications.

There are many reasons why a trade mark application might be accepted after examination and then be successfully opposed by another party. As the draft report notes, the hearing and opposition processes enable consideration of more information and evidence than the examiner had access to. In addition, the grounds on which an application may be opposed are not the same as the grounds on which it may be rejected during examination. For example, section 60 of the Trade Marks Act (which is mentioned in Figure 11.7) is a ground for opposition, but it is not a ground for rejection of an application, so it is not considered during the examination of a trade mark. This is because section 60 relates to conflict between the trade mark application and any other mark that has acquired a reputation in Australia. This includes trade marks that have not been registered in Australia and therefore could not have been found by the examiner when searching the register for conflicting marks.

For all of these reasons, IP Australia does not consider that the hearings and opposition data referred to can be relied upon to support the suggestion that 'it may be getting more difficult to check the stock of existing marks, suggesting that the trade mark register could be becoming more cluttered.'<sup>29</sup> IP Australia could provide the Commission with a more complete dataset if a comprehensive analysis of hearings outcomes is considered necessary.

IP Australia is aware of some international literature on trade mark cluttering that the Commission may be interested in.

- Graevenitz, Greenhalgh, Helmers and Schautschick (2012)<sup>30</sup> present a conceptual framework and show, for the UK, that applicants who are surveyed perceive a cluttering issue with the register, but there is little strong evidence that the register is cluttered.
- Graevenitz (2013)<sup>31</sup> shows that uncertainty in the regulatory market led pharmaceutical companies to over-apply for trade marks, which could lead to cluttering of a part of the European IP Office's (EU-IPO) trade mark registry.
- Graevenitz, Ashmead and Greenhalgh (2015)<sup>32</sup> show that non-use of trade marks in the UK and EU-IPO registers is more prevalent than previously thought and compares poorly with the USPTO. On average, EU-IPO trade marks claim 50 per cent more goods or services than

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<sup>29</sup> Productivity Commission, *Intellectual Property Arrangements*, Draft Report (2016) p.335.

<sup>30</sup> Graevenitz, Greenhalgh, Helmers and Schautschick (2012) '[Trade Mark Cluttering: an exploratory report](#)'

<sup>31</sup> Graevenitz (2013) '[Trade mark cluttering - evidence from EU enlargement](#)' (WIPO draft)

<sup>32</sup> Graevenitz, Ashmead & Greenhalgh (2015) '[Cluttering and Non-Use of Trade Marks in Europe](#)'

USPTO marks, with a sub-set of identical marks claiming different classes and lasting longer than USPTO marks. The paper suggests that this difference may be due to the USPTO practice of requiring trade mark owners to prove use of the mark on the goods and services claimed. Under the US law, trade mark owners must provide evidence of use between five and six years after registration and again at the 10-year renewal stage. The registration will be narrowed to reflect the scope of goods or services for which use is demonstrated, or removed if no use is demonstrated.

IP Australia considers the findings of Graevenitz et al. (2015) to be of particular interest and a study that replicates this work on the Australian system would help identify the nature and extent of any cluttering on the trade mark register.

A potential source of clutter that is not discussed in the draft report is registered trade marks owned by businesses that are no longer active. This is an effect of the duration of registered trade marks, which are valid for 10 years after filing. Australia operates a 'use-it-or-lose-it' system where marks can be reclaimed if the owner is not using the mark. Australia is similar to the UK and Europe in that we do not require trade mark owners to show evidence of their use of the trade mark on the goods or services that are claimed.

IP Australia has undertaken a review of the data available on trade marks registered by firms that are no longer on the Australian Business Register. Details of this analysis are provided in Attachment C. It shows that only 1.3 per cent of live marks held by Australian firms on 31 December 2014 were held by de-registered firms. Further investigation may be warranted, but this analysis suggests that cluttering from this source is relatively minor.

## Draft recommendation 11.1

The draft report includes a number of recommendations that are aimed at reducing the potential for trade mark cluttering. IP Australia offers the following additional information to support the Commission's understanding of how these reforms might operate in practice.

### Mandatory disclaimers

IP Australia accepts that disclaimers make it clearer to competitors that a trader is not claiming exclusive rights to non-distinctive elements, and notes that there has been continued support for the reintroduction of mandatory disclaimers. However, we query if it would minimise the 'clutter' that the Commission refers to, and suggest that it may actually make the examination and registration process longer and more complicated.

The *Trade Marks Act 1955* allowed for mandatory disclaimers, whereby the Registrar could require the applicant to disclaim rights to any non-distinctive elements of their trade mark as a condition of registration. The presence of a disclaimer on a registration clarified the scope of the trade mark right and provided competitors and other traders with some degree of certainty that their own use of a non-distinctive element would not result in infringement action.

Reintroducing mandatory disclaimers would not have the desired effect of 'reducing the range of elements that could be registered and exclusively used'<sup>33</sup> because disclaiming a non-distinctive element does not make that mark any more or less registrable. A trade mark that was registrable under the previous legislation with a disclaimer could still be registrable today without a disclaimer.

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<sup>33</sup> Productivity Commission, *Intellectual Property Arrangements*, Draft Report (2016) p.336.

For example, the trade mark DIET PEPSI (216175) was registered in 1968 with a disclaimer applied to the word DIET because it is a non-distinctive element when used in relation to drinks. DIET COKE (385318) was registered in 1982 with the same disclaimer – the earlier registration did not prevent a competitor from using the same term even though a disclaimer was applied. Furthermore, neither registration limits or prevents other traders from using the word DIET, and many more trade marks containing this term have been registered since.

Mandatory disclaimers were not included in the 1995 Act because it was decided that the costs of administering this requirement outweighed the benefits of retaining it. The complexities involved in the consideration of disclaimers resulted in a considerable amount of time being spent on the issue during examination. In addition, disclaimers do not make any practical difference in the marketplace, as they are not featured on the packaging of trade marked goods. Instead of retaining mandatory disclaimers, voluntary disclaimers are provided for under section 74 of the current Act and may be recorded on the Register at the request of the applicant or registered owner.

### **Defensive trade marks**

IP Australia agrees that the effectiveness and impact of the defensive trade mark system could be investigated. However, given that there are only around 300 defensive trade marks on the register, IP Australia is not convinced that repealing the relevant provisions would contribute to de-cluttering the register. Furthermore, the repeal of this system would need to be carefully considered to ensure that Australia continues to meet international obligations to protect well known marks in a balanced and transparent manner.

The Paris Convention and the TRIPS Agreement require member states to protect ‘well-known marks’ and the defensive trade mark system is part of Australia’s regime that helps fulfil this obligation. If it was repealed it may need to be replaced with an alternative mechanism for protection of well-known marks. In the context of the protection of well-known marks, defensive marks could be considered to be a transparent mechanism because marks undergo a consistent administrative assessment and appear on the trade marks register, thereby alerting third parties of their freedom to act in particular business fields. Additionally, the beneficiaries bear the costs of obtaining and monitoring their defensive marks.

### **Fees**

The Commission has suggested that ‘the fee for registering a mark within a single class [should] be small, but that the fee should increase for marks that seek registration across entire or multiple classes’.<sup>34</sup> The Nice Classification system for goods and services is an administrative tool that helps to manage trade mark registrations in a systematic way. The number of classes a mark is registered for is not a reliable indication of how broad the coverage of the mark is because some classes cover a wide range of goods or services while others are narrower. Some examples of class headings that show this variation are:

- Class 5 – pharmaceuticals, medical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides
- Class 15 – musical instruments

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<sup>34</sup> Productivity Commission, *Intellectual Property Arrangements*, Draft Report (2016) p.336.

- Class 23 – yarns and threads for textile use
- Class 34 – tobacco, smokers' articles, matches
- Class 44 – medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

A registration that only claims a few specific types of goods in several classes may be a much narrower registration than one which claims many goods in one class. An example to illustrate this point would be aquarium supplies – aquarium pumps are in class 7; lights, heaters and filters are in class 11; aquarium sand and gravel are in class 19; tanks are in class 21; and live fish and fish food are in class 31. As such, a relatively narrow registration for a business in this sector would cover five classes, whereas a registration that claims many of the goods listed in class 5 above might be substantially broader in its scope but only cover one class.

An additional complication in implementing this recommendation relates to the reference to marks that claim an 'entire class'. It would be an administratively difficult and costly task to determine whether an application claims the entire class or only some percentage of the goods or services covered by that class. For example, the World Intellectual Property Organization (WIPO) publishes a list of the goods and services that are covered by each class and includes 702 items in class 1, 129 in class 2 and 236 in class 3.<sup>35</sup>

It is also worth noting that applicants can file multiple trade mark applications for one class, rather than a single application with multiple classes, which would challenge any fee model that had additional fees per class. The issues discussed above in relation to draft recommendation 6.3 on IP Australia's cost-recovery model and the relative inelasticity of IP fees are also relevant to this recommendation.

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<sup>35</sup> The full list of goods and services in each class can be downloaded at:  
<http://web2.wipo.int/nef/en/downloadanx/1452/NC016>

# Plant Breeder's Rights

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## Information request 12.1 – Patent ‘sniping’

IP Australia notes, despite the potential risk of patent ‘sniping’, we are not aware that ‘sniping’ is a significant issue at this time. Nevertheless, we will continue to monitor this space. We note the concerns raised in the submission from Australian Grain Technologies (AGT) and we would welcome further information on this issue, including details of specific instances where patent ‘sniping’ has occurred.

### Would extending EDV coverage reduce the potential for patent sniping?

Patent ‘sniping’ involves a second breeder introducing a patented gene into the variety to create an ‘important’ difference. This currently results in the second variety not being declared an essentially derived variety (EDV), meaning that the first breeder cannot limit the second breeder's use of the subsequent variety. However, extending EDV coverage would likely not reduce the potential for patent ‘sniping’ on its own. Further reforms (such as a market-impact test) are likely to be required because the second breeder can introduce a patented gene into the variety regardless of whether a Plant Breeder's Right is sought for the second variety.

### Market-impact test

There are a number of potential issues in developing and implementing a market-impact test.

The first issue to consider is whether a market-impact test would be consistent with the *International Convention for the Protection of New Varieties of Plants* 1991 (‘UPOV Convention’), noting that Article 14(5) and Article 17 may be relevant to considerations.

Regardless, there are a number of practical issues with developing and implementing a market-impact test. The practicality of the market-impact test depends greatly on its implementation.

Example approaches may include:

1. A simple fixed time period for all varieties after which it is assumed that the commercialisation of the second variety could not significantly impact commercially on the first variety. This would be simple to administer, and certain in its application to both parties. However, it risks unfairness as the fixed period would be arbitrary and would not actually represent the period of commercial impact for many varieties.
2. Different time periods for each plant type, based on the average market life of a group of varieties. Although potentially fairer than option 1, it may still operate unfairly if the actual market life of the variety in question did not fit the average of the group.
3. A general principles test, such as ‘no adverse effect on the commercial interests of the original breeder’. Such a test would involve subjective judgements beyond the experience of the Plant Breeder's Rights office, likely impose legal uncertainty, and increase the regulatory costs of contesting an EDV application.

# IP Institutional and Governance Arrangements

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The Commission seeks feedback on how to improve IP governance and policy-making in Australia. IP Australia notes that issues around the appropriate administrative arrangements will be a matter to be considered by the incoming Government. However, the following information may be of assistance to the Commission in formulating its recommendations.

The draft report indicates that the dual role of IP Australia as an administrator and provider of policy advice presents some risks, while acknowledging that expert technical input is integral to good policy advice. Therefore, as the Commission recognises, it is important that effective strategies are in place to mitigate the risks. As highlighted by the draft report, IP Australia and the Department of Industry, Innovation and Science (DIIS) have such measures in place, including the recent establishment of a separate Deputy Director General position responsible for policy within IP Australia in 2015. The Commission's suggestions around having a more transparent protocol about responsibilities with DIIS could provide further assistance. As recognised by the Commission, in setting out the division of responsibilities more transparently between policy development and administration, it is important to minimise any loss of flexibility.

Currently, IP Australia works with DIIS to advise the Government on IP matters, IP Australia generally takes the lead on technical policy issues, and DIIS takes the lead on broader policy issues that deal with other aspects of innovation policy or relate to the role of IP in Australia's innovation system. DIIS has responsibilities across industry and innovation policy, including national policy issues relating to the digital economy, as well as extensive capabilities in economic analysis, which complement IP Australia's more technical IP expertise.

IP Australia is a strong proponent of evidence-based policy and is committed to open data, econometric analysis and active stakeholder engagement. IP Australia has made considerable commitments to transparency and evidence-based policy in recent years. For example, the creation of an Office of the Chief Economist in 2012, and the free public provision of all IP Australia's IP system data through the launch of IP Government Open Data (IPGOD) in 2014. We make all of our research papers publicly available for comment on our website and conduct extensive consultation during policy development process, an example being the Raising the Bar reforms (details of the consultation process were presented in our previous submission). IP Australia, being a cost-recovery agency focussed on IP, has been able to consistently carry out rigorous consultation practice and invest in the development of economic and data resources to facilitate evidence-based policy. Nonetheless, additional measures, such as transparent protocols around responsibilities, could further this objective.

The Commission asks whether consolidating responsibility for IP policy in a single entity would result in a more integrated approach and who would be an appropriate 'policy champion'. IP Australia observes that having multiple agencies involved is not necessarily an obstacle to a well-functioning IP system, but it requires these agencies to collaborate effectively. IP Australia would also note that the strong links between IP policy and innovation policy are enhanced by retaining responsibility for these policy areas within the same portfolio, and there may be risks in separating them. There may be alternatives to achieve a more integrated approach, such as a standing interdepartmental committee to further systematise collaboration between relevant agencies, which would be led by the key policy agency.

In relation to independent input and oversight on IP policy, we note that the Commission does not consider that further changes by IP Australia are warranted at this time. We would add that the IP Stakeholders Forum, mentioned in the draft report, has been established with a broader membership base than ACIP had and its terms of reference allow it to play a broad oversight role. Combined with the establishment of *ad hoc* expert committees or engaging consultancies to inquire into specific issues, this presents a framework to provide relevant independent advice and oversight. We note that the Commission considers that selectively drawing upon broader panels of experts, on a tailored and as needed basis, achieves many of the benefits of a standing advisory body, while offering greater flexibility and timeliness, at a lower cost. We note that the Commission is another available avenue for seeking independent research and advice on IP.

# International Cooperation in IP

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## Finding 17.1 and draft recommendation 17.1 – Focus on multilateral fora

The draft report highlights the superior outcomes from multilateral instruments rather than bilateral and plurilateral trade agreements. Multilateral norm-setting outcomes potentially have greater impact and significance for Australian businesses seeking to trade in a wide range of foreign markets. However, the negotiation of multilateral treaties is complex, and can be slower and more difficult than negotiation of bilateral or plurilateral treaties.

The Commission also mentions stakeholder comments indicating that significant cooperation occurs in fora such as the IP5, the Tegernsee Group and Group B+. While Australia is not part of the IP5 or Tegernsee Group, Australia takes a keen interest in these groups and is active in Group B+. Australia's efforts in these types of fora ultimately feed into multilateral fora. In addition to norm-setting activities, IP Australia also works with WIPO and has strong partnerships with a range of other IP offices to enhance practices, procedures and quality in granting IP rights through administrative cooperation. This activity enables us to influence development of the international IP system, but also, through shared learning, assist in improving the efficiency and quality of our own work. An example of this is Australia's key role in supporting the development of WIPO CASE (Centralised Access to Search and Examination).

### **Case Study: WIPO CASE**

*The WIPO CASE system enables patent offices to securely share search and examination documentation related to patent applications in order to facilitate work sharing programs.*

*Many patent applications are filed in multiple offices and patent examiners can increase the efficiency and quality of their work by sharing their examination results.*

*The system was initially developed by the International Bureau of WIPO in response to a request from the Vancouver Group offices (Australia, Canada and the UK). Based on the Vancouver Group's requirements, an initial system was deployed in 2011. The system has now grown and developed to include participating offices from more than 20 countries, and includes linkages to the IP5's One Portal Dossier system.*

*According to statistics made available by WIPO, over 13 million applications are available through WIPO CASE and, as of 31 March 2016, over 45,000 documents have been accessed by participating offices.*

## Information request 17.1

The PCT is an important part of the global IP infrastructure. The PCT allows applicants to be informed by an international assessment of their application, before applicants decide whether to incur the significant costs in each jurisdiction where protection is sought. Of the 9,253 applications filed abroad by Australians in 2014, 66 per cent were filed using the PCT system. The remaining 34

per cent were direct applications to destination offices. The split between PCT applications and direct applications is representative of previous years.<sup>36</sup> The Global Patent Prosecution Highway (see case study) is another relevant initiative in which Australia participates, and which it supports to reduce transaction costs for applicants.

### **Case Study: the Global PPH**

*The Global Patent Prosecution Highway (GPPH) is a plurilateral initiative which allows patent applicants to request accelerated examination in one office based on the same application being granted in another office. This allows Australian applicants to access around 20 foreign patent offices quickly and efficiently,<sup>37</sup> including the United States, Japan and Korea. Australia was an early adopter of the Patent Prosecution Highway, which began as a network of bilateral arrangements. Australia was a strong advocate for a plurilateral approach, which ultimately became the GPPH.*

*As of June 2015, Australian patent applications have been used as the basis for 974 PPH requests overseas, with the majority of these requests received by the United States Patent and Trademark Office. Taking the USPTO as an example, PPH requests (compared to non-PPH requests) experience a higher grant rate, shorter pendency and fewer administrative actions.*

*Further GPPH statistics are available here: <http://www.ipa.gov.au/pph-portal/statistics.htm>*

### **Source IP**

The Commission has sought information on whether Australian businesses have utilised opportunities for licensing through Source IP. In November 2015, IP Australia launched the Source IP digital marketplace, which is a one-stop-shop for information sharing, licensing preferences and facilitating contact for IP generated by the public research sector in Australia.<sup>38</sup> This initiative seeks to address a current barrier to research collaboration and commercialisation through making information about available public sector IP more accessible.

Source IP has generated eight patent-specific licensing requests, six patent-specific collaboration requests and four requests for collaboration with a research organisation since it was launched. Whilst the outcomes of all of these requests are not yet finalised, several successful outcomes have been reported.

For example, Source IP achieved the first value confirmation four months after launch through the successful interaction of a small tech start-up 'Forcite Helmet Systems' and UNSW based on technology that was discovered through Source IP.<sup>39</sup> Looking to expand the capabilities of their helmet product, but lacking access to the kind of the research and development capabilities that larger commercial enterprises have, Forcite decided to explore Source IP. They discovered a

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<sup>36</sup> <https://www.ipaustralia.gov.au/ip-report-2016>

<sup>37</sup> See for example, Webster, Elizabeth ; Jensen, Paul H. ; Palangkaraya, Alfons ; 2014. Patent examination outcomes and the national treatment principle. RAND Journal of Economics. Vol. 45, no. 2 (Mar 2014), pp. 449-469.

<sup>38</sup> <https://sourceip.ipaustralia.gov.au>

<sup>39</sup> <http://www.afr.com/leadership/entrepreneur/forcite-helmets-given-source-ip-headstart-20160601-gp8uk3>

relevant listing which was available for licence (detailing a highly scalable image and video compression technology), developed by researchers at UNSW. The company has visited UNSW to talk more specifically with researchers about the technology and will be keeping track of developments along with other emerging technologies coming out of UNSW Innovations that could enhance future systems in the pipeline for Forcite.

We have also seen Source IP used to support a secondary market of 'innovation matchers'. The platform is currently being used by the Canberra-based consultancy Ideas Connect in their work undertaking research and advising clients on in-country opportunities and potential partners in the research community. The data from Source IP has also been leveraged by the Australian commercial marketplace Enterprise Access.<sup>40</sup>

### **International licensing**

Increased global exposure for the information listed on Source IP is being actively pursued by IP Australia. A number of websites now re-use the data collected through Source IP. For example, in March 2016 an agreement was made with major UK patent marketplace 'Intellectual Property Exchange'.<sup>41</sup> Opportunities with other marketplaces are also currently being explored.

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<sup>40</sup> <https://www.enterpriseaccess.com>

<sup>41</sup> <https://www.ipexchange.global/>

# Compliance and Enforcement of IP Rights

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## Information request 18.1 – Enhance the role of the FCC on IP matters

As highlighted in IP Australia’s submission to the issues paper, we consider that the difficulty faced by small businesses in enforcing their IP rights is a weakness of the current system. IP Australia would see value in exploration of further streamlining the rules of the Federal Court and the Federal Circuit Court (FCC) for IP matters, as recommended in the draft report. In addition to the time and cost constraints faced by small businesses, a significant number may also lack confidence in how to deal with disputes over IP rights. IP Australia would see value in further exploration of initiatives, such as additional information and advice, IP insurance and Alternative Dispute Resolution services, which may provide SMEs with increased confidence to protect and enforce their rights.

The jurisdiction of the FCC was previously considered by ACIP. The Government response at time stated:

The Federal Magistrates Court is intended to be a high volume jurisdiction established to deal with simpler and shorter cases. Patent cases are generally longer than trade mark and design cases. Therefore, the Government recommends that further consideration be given to conferring the Federal Magistrates Court specific jurisdiction in patent related disputes in the light of experience gained in the implementation of the recommendations for trade marks and designs, and the operation of the transfer mechanism in the *Jurisdiction of the Federal Magistrates Court Legislation Amendment Act 2006*.<sup>42</sup>

In terms of experience gained, the FCC’s annual report (2014-15) indicates that 52 IP matters were filed in 2014-15 (0.6 per cent of total applications), with 51 finalisations. The FCC indicates:

While this represents a small component of the general federal law work of the Court, it is considered useful for litigants to have access to a court which can deal with alleged infringements of intellectual property proportionate to the matter in dispute.<sup>43</sup>

IP Australia observes that if patents jurisdiction were to be granted to the FCC, a significant number of proceedings may still be transferred to the Federal Court. This is due to the complexity of most patents disputes.

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<sup>42</sup> <https://www.ipaustralia.gov.au/about-us/public-consultations/archive-ip-reviews/ip-reviews/consideration-of-extending-the-jurisdiction/government-response>, accessed 30 May 2016.

<sup>43</sup> [http://www.federalcircuitcourt.gov.au/wps/wcm/connect/1342af88-6499-4e1e-98a9-416c22f08647/2182-Federal\\_Circuit\\_Court\\_Annual\\_Report\\_2014%E2%80%9315-WEB.pdf?MOD=AJPERES](http://www.federalcircuitcourt.gov.au/wps/wcm/connect/1342af88-6499-4e1e-98a9-416c22f08647/2182-Federal_Circuit_Court_Annual_Report_2014%E2%80%9315-WEB.pdf?MOD=AJPERES), accessed 30 May 2016.

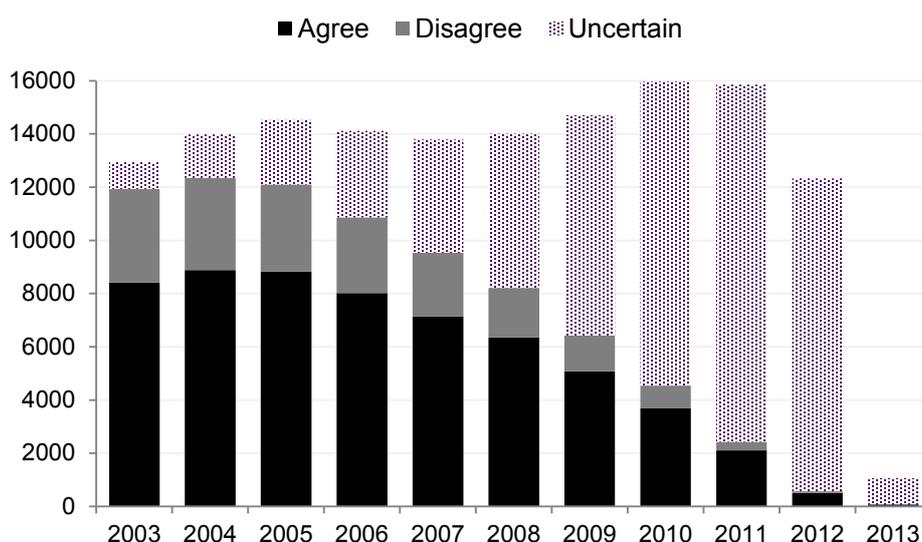
# Attachment A

## Comparing EPO and IP Australia patent examination outcomes

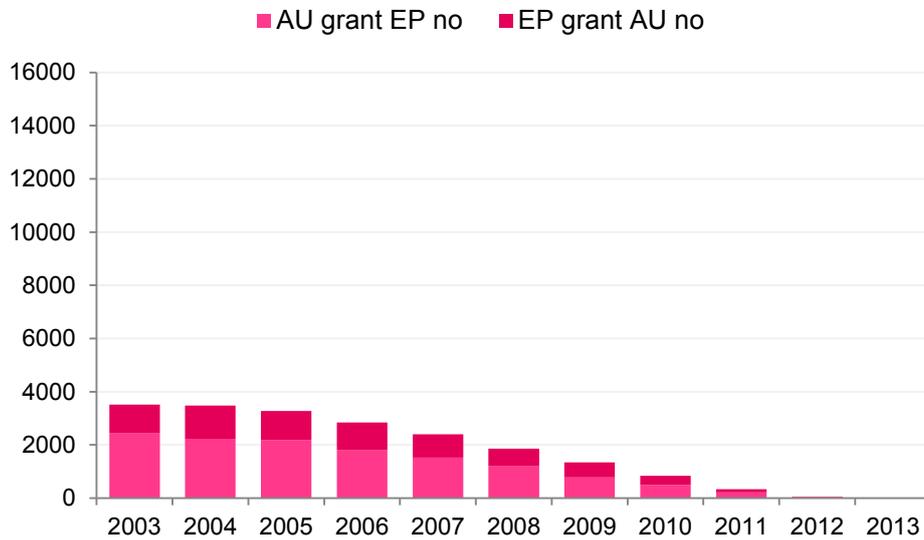
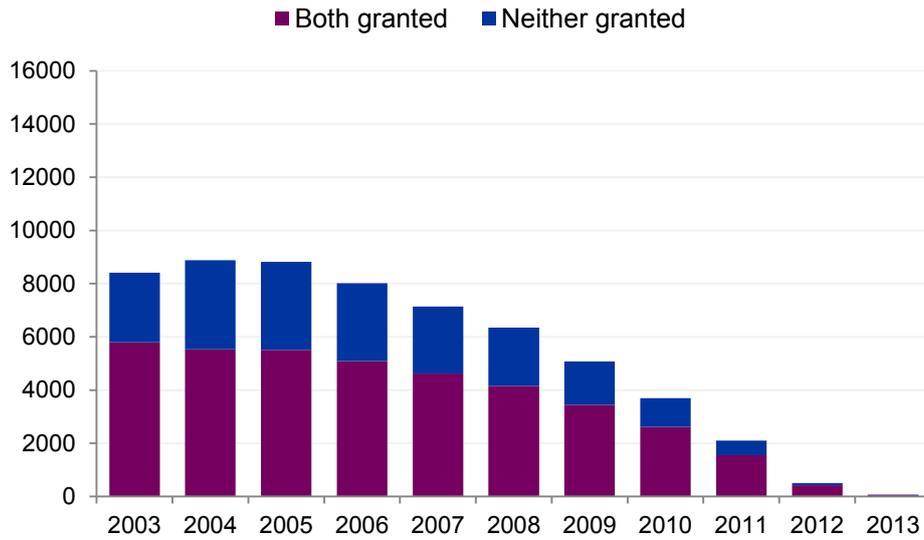
The Office of the Chief Economist at IP Australia has performed some analysis on patent acceptance rates in the EPO versus patent acceptance rates in Australia to inform considerations on the comparative inventive step between jurisdictions.

- The EPO is significantly behind Australia in their examination queue, leaving uncertainty as to how the two jurisdictions compare in their examination outcomes. From 2009 onwards there are more patent applications that are still 'pending examination' than have been examined by both jurisdictions, indicating that there is no comparable data available post-Raising the Bar.
- For cases where a decision has been reached in both jurisdictions, there is a tendency towards agreement as to whether a patent should be accepted or not, with agreement in 70-75 per cent of cases.
- In the remaining 25-30 per cent of cases the jurisdictions disagree. In these cases, approximately two-thirds of the cases include Australia granting a patent and the EPO not, and one third of cases include the EPO granting a patent and Australia not.
- This highlights a small difference in practice, with Australia passing 65 per cent of patents included in the analysis and the EPO passing 58 per cent. These rates are indicative of comparative examination results from applications filed in the early 2000's, and not indicative of post-Raising the Bar practice.
- Please note that this is a basic analysis based on patent family data in the two jurisdictions, and did not compare the nature and scope of the patent applications filed, and the patents granted.

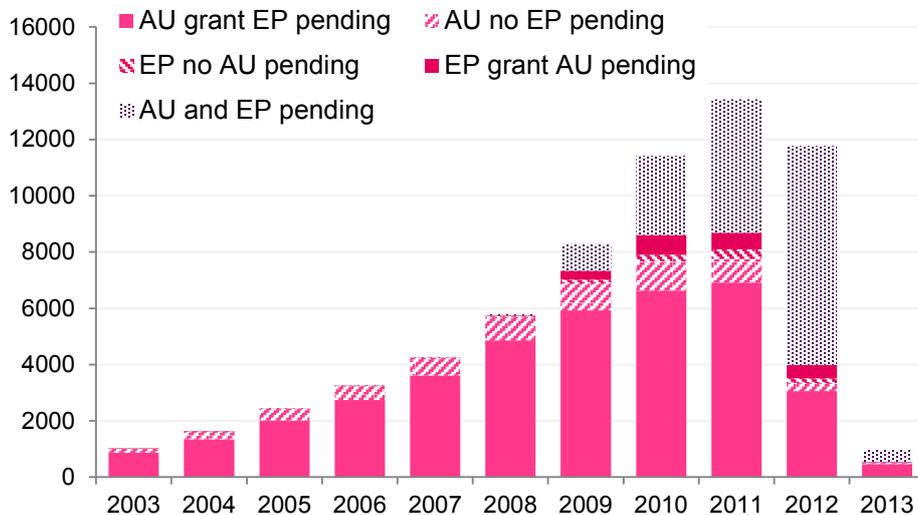
This summary can be seen in the following graphs:



In the above graph, 'Agree' refers to cases where the EPO and Australia either both grant or both do not grant a patent. 'Disagree' refers to cases where one jurisdiction grants and the other does not. 'Uncertain' refers to cases where the examination is still pending in one or both jurisdictions. The following graphs drill down further into the cases where jurisdictions reach the same outcome, and where jurisdictions did not.

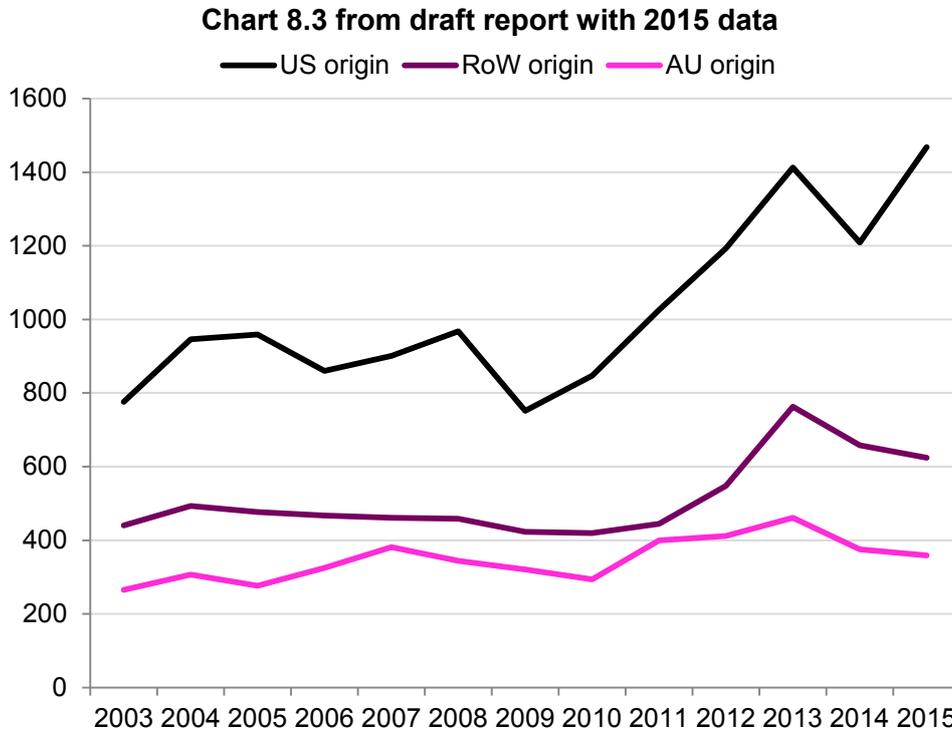


The figure below shows cases where examinations are still pending or underway, and no direct comparison of Australia to EP results are available yet.

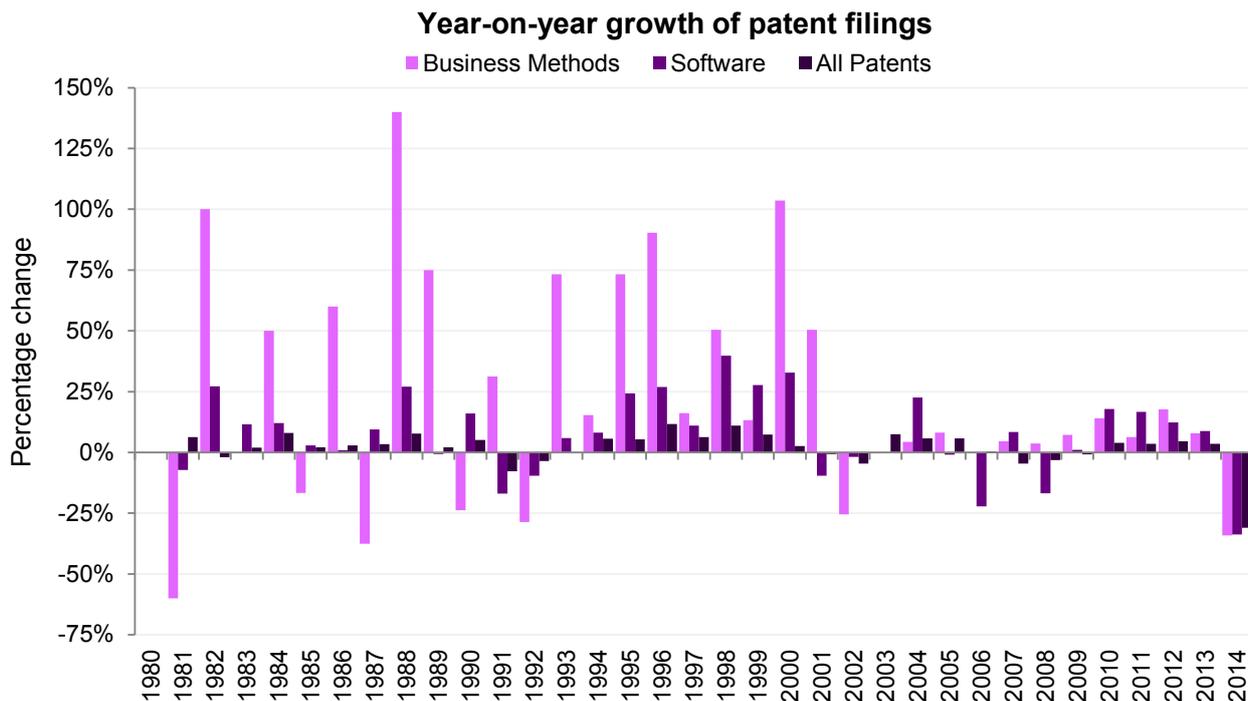


# Attachment B

## Business Method Patents and Software Patents



The figure above is a reproduction of Figure 8.3 in the Commission’s draft report, with the addition of the latest IPGOD 2016 data which, shows a rebound in 2015 of US-origin business method patent applications and software patent applications filed in Australia.



Business method patents and software patents have experienced volatile growth relevant to other patents in total, but show largely positive growth. Business method patents and software patents growth tends to exceed growth of all other patents in total in most years.

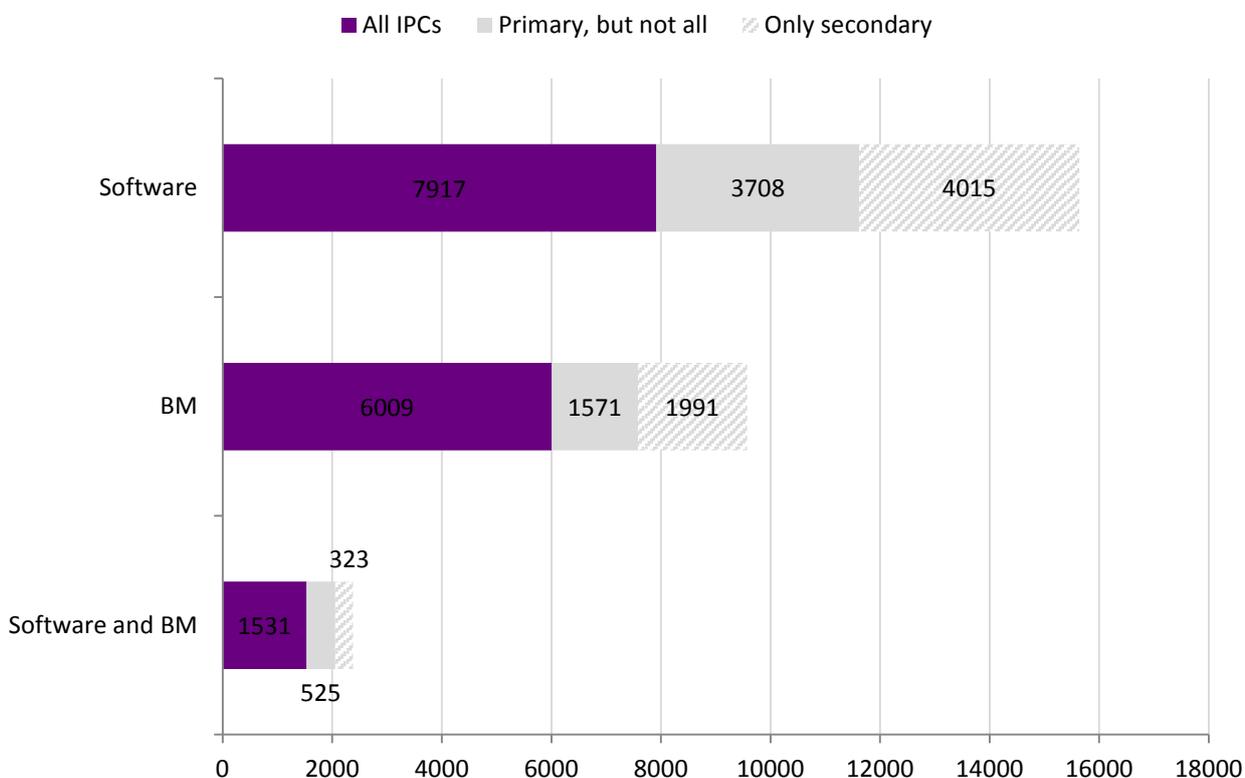
The overlap between business method patents and software patents is limited, and far from the standard case. The graph below indicates the number of patents filed at IP Australia between 2003 and 2015 which have been assigned the International Patent Classifications (IPC) related to either business methods, software or both, as used by the Commission in its draft report.

The first two bar charts indicate the total number of patents classified as software or business methods. There is a total of 15,640 software patent applications and 9,571 business method patent applications.

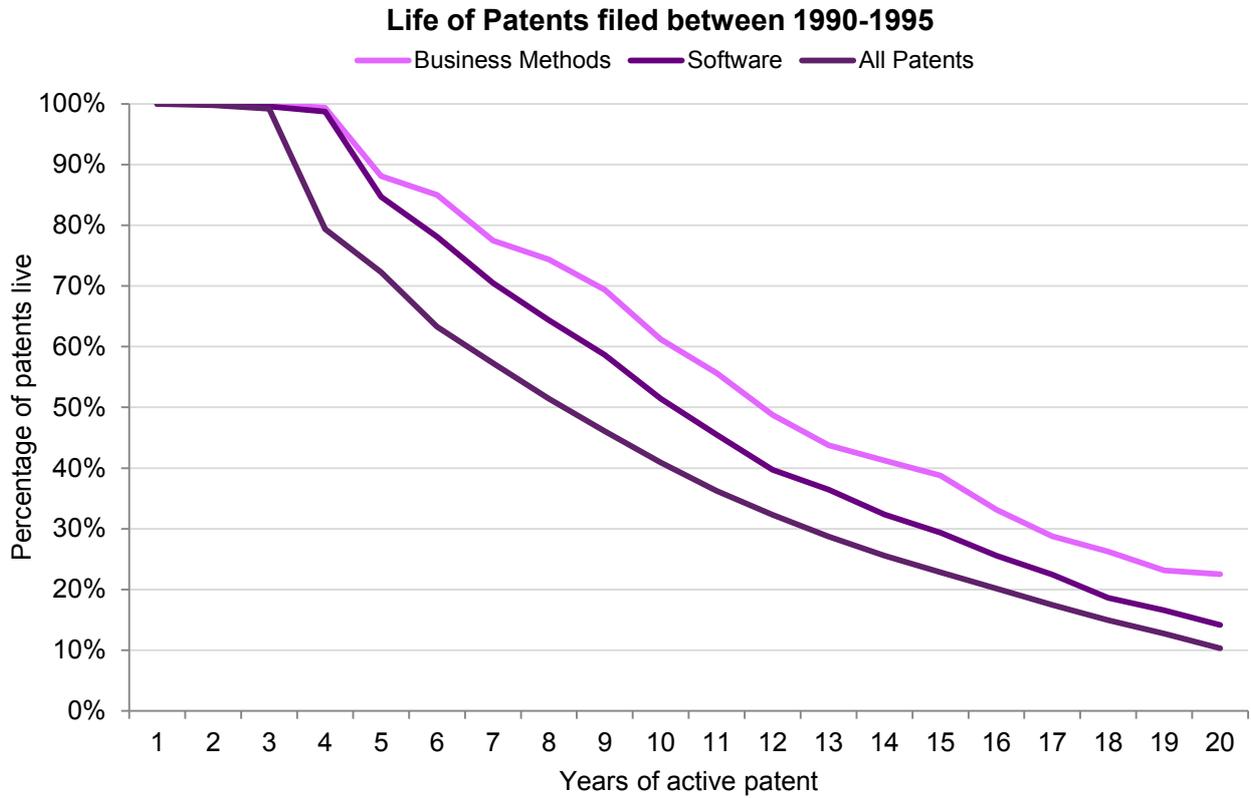
The colours indicate when:

- All IPCs relate to business methods or software (purple).
- The primary IPC is a business method or software, but not all IPCs relate to these technologies (grey).
- The primary IPC is not a business method or software IPC, but at least one IPC relates to the technology (dashed grey).

Software patents and business method patents are counted together in the first two columns, so the grey parts may include combined technology. The final bar indicates where the technologies overlap in patent applications. There are a total of 2,379 applications that have at least one IPC mark from both technologies. Taking the broadest definition of what can be considered a joint technology application, this suggests that less than 10 per cent of patent applications relating to software and business methods relate to both technologies.



## Survival analysis



For patents filed between the years 1990 to 1995, business method patents and software patents have a longer active life compared to all patents.

# Attachment C

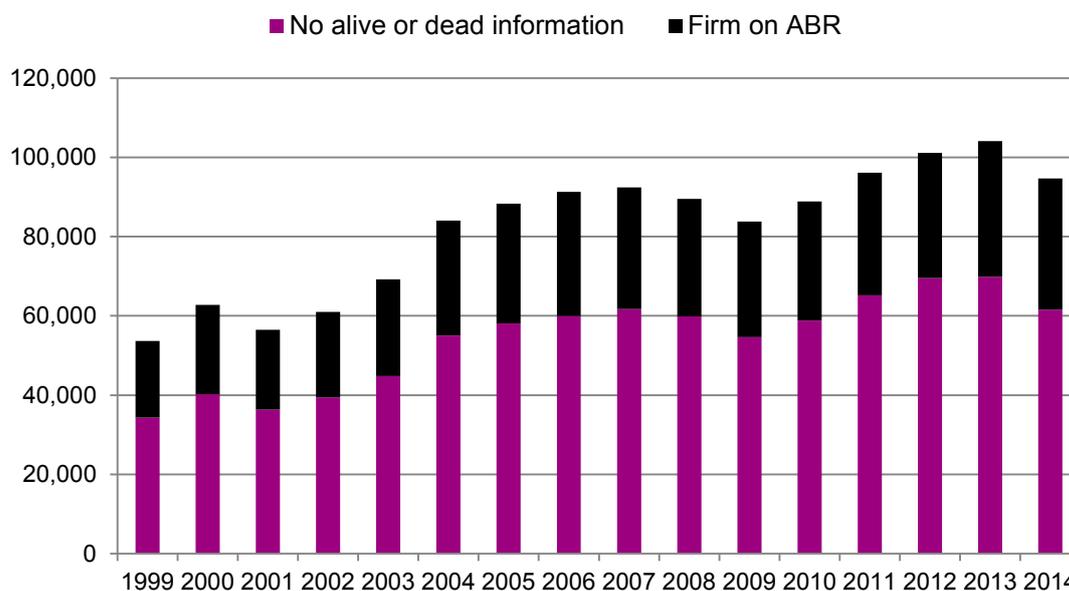
## Trade mark cluttering as a result of de-registered firms

The issue of trade mark clutter, or unused live marks on the register, is often suggested as arising from the length of trade mark validity without the need for renewal payments. However, data available to determine the live or dead status of applicants for trade marks is however incomplete for Australia.

Data only exists for firms that are on the Australian Business Register (ABR), and thereby excludes: private applicants, international applicants and Australian firms which have not been able to be matched to the ABR – often due to issues such as name changes. Furthermore:

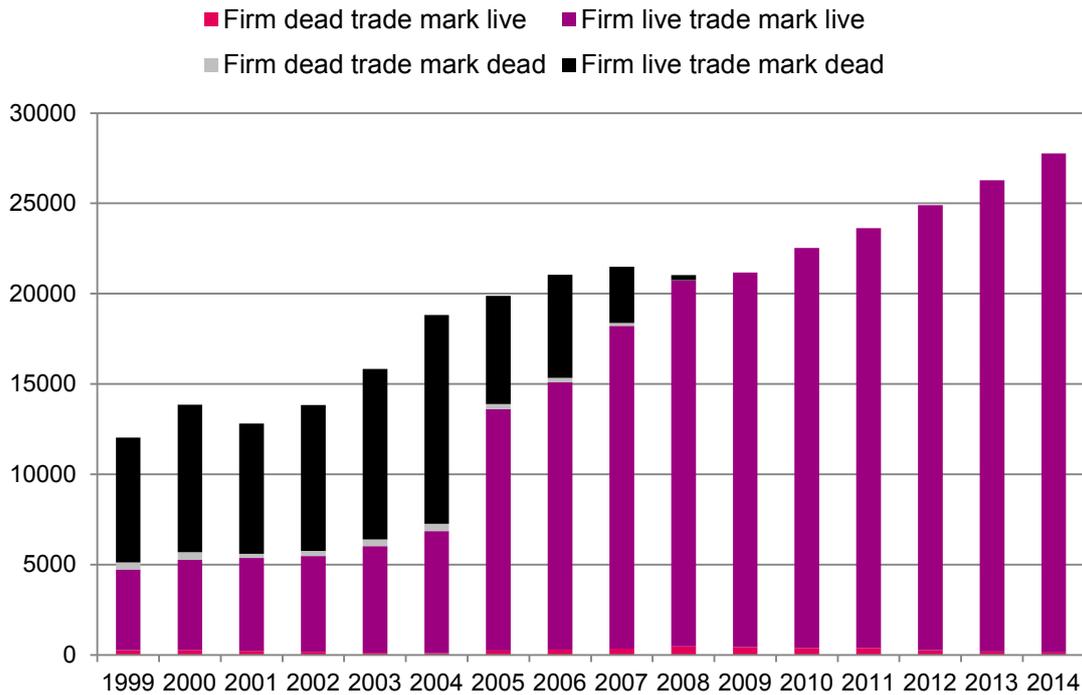
- There is little data available on whether the applicant is still using the trade mark. One of the best proxies is the ABN or GST cancellation dates in the ABR, but issues exist in applying this.
- The best data available suggests that on 31 December 2014 only 1.3 per cent of trade marks registered by Australian firms were held by firms that had cancelled their ABN and/or GST number by that date. These marks were also not renewed after their lapsing date.
- It is unknown how representative Australian firm ‘dying’ is of ‘non-use’ of a trade mark.

Due to this we can only ascertain the ‘live’ or ‘dead’ status of 34 per cent of applicants for the period 1999 to 2014 inclusive (which reflects the current full set of ABR data).



However, the ‘live’ or ‘dead’ status of firms on the ABR, as determined by using the GST and ABN registration and cancellation dates, can be an unreliable proxy when checked against trade mark renewals. The primary reason for this is inaccuracies and incompleteness of the available data, where mergers, acquisitions, incorrect matches and simply different arms of a business can distort the data. A large number of trade marks have their renewal paid after the firm has de-registered their ABN or GST numbers. This indicates that although the ABN or GST status of that firm may no longer exist, there is still an applicant that finds value in maintaining their trade mark.

If we remove this contradictory data, where either renewals or lodgements have occurred after the firm has ‘died’, we can produce the following breakdown of firm and trade mark; live and dead status.



This graph shows all the trade marks registered between 1999 and 2014 by Australian firms, with the year of lodgement on the x-axis. The colours represent the status of the trade marks as of 31 December 2014, which is the end of the available ABR data for the full calendar year. The small red part of the bar indicates that a trade mark was registered in a given year, and was still alive by 31 December 2014, but the firm had de-registered its ABN and/or GST number by this date. The red part of the graph makes up 1.3 per cent of all registered trade marks over this 15 year period.

It is unknown how well this 1.3 per cent relates to the 'non-use' of the trade mark, or how other subsets (private applicants, international firms) might vary in their behaviour.

