



The Digital Industry Group Incorporated's submission to the Productivity Commission's Draft report into Australia's Intellectual Property Arrangements, April 2016

3 June 2016

The Digital Industry Group Incorporated (**DIGI**) commends the Productivity Commission for producing its April 2016 draft report on Intellectual Property Arrangements and inviting public comment on that report.

We write to express our support for several recommendations relating to copyright and patents, namely:

- replacing the current fair dealing exceptions with a broad exception for fair use (Draft recommendation 5.3);
- expanding the safe harbour scheme to cover the broader set of online service providers (Draft recommendation 18.1);
- raising the inventive step required to receive a patent (Draft recommendation 6.1); and
- abolishing the innovation patent system (Draft recommendation 7.1).

We also partially support Draft recommendation 8.1, and believe that business methods – but not software inventions that provide a technological contribution – should be excluded from patentability.

About DIGI

The Digital Industry Group Incorporated is a not for profit industry association, whose objectives are to:

1. protect the open nature of the Internet for Australians as an environment for innovation and freedom of access to information, communications and commerce;
2. promote the benefits of the Internet to government, community and other key stakeholders; and
3. advocate for a balanced and common sense approach to policy development for the online world.

DIGI's members include Facebook, Microsoft, Twitter, Google and Yahoo!. DIGI members together employ more than 2,300 people in Australia and have offices in Sydney, Melbourne, Canberra, Adelaide, Perth and Brisbane.

The business solutions and online platforms that DIGI members provide to the Australian public facilitate new distribution, marketing and revenue generating channels for Australian businesses and content creators. They are also driving fundamental changes to the way that business is conducted and content is created and distributed.

Implementing fair use

In Chapter 5, the draft report recommends the removal of the existing fair dealing exceptions and replacing them with a new fair use exception. As the report explains, one of the key differences between fair dealing and fair use is the greater flexibility that fair use offers to new and innovative industries. In DIGI's view, this issue lies at the heart of the problem of the existing fair dealing exceptions. And as the speed with which new technologies and business models emerge and replace existing ones gets faster, Australia's fair dealing defences will simply become less fit for purpose over time.

DIGI also agrees with the Commission's view that legal uncertainty is not a compelling reason to avoid the introduction of a fair use exception in Australia. As DIGI indicated in its earlier submission, inevitably, as with the current copyright laws, there will always be a measure of uncertainty, especially during a transition period. However, of greater concern should be the legal uncertainty that surrounds those activities which form the backbone of everyday digital life - and provide benefits to creators and users alike: cloud computing; search etc.¹

Further, given the extensive experience that DIGI members have operating in both Australia and the United States (under a fair use system), they can report that it is not their experience that the United States fair use system is particularly uncertain, nor does it present any unique challenges for the operation of their businesses. In fact, it is the flexibility of the fair use system that has helped facilitate the development of innovative goods and services that they have been able to export around the world, including to Australia.

Broadening the safe harbour scheme

In Chapter 18.4, the draft report recommends the expansion of the safe harbour scheme to cover a broader set of online service providers. As the report explains, expanding the coverage of Australia's safe harbour regime to other online service providers will improve the system's adaptability as new services are developed and is consistent with Australia's international obligations. It will also put local innovators on the same footing as their competitors in countries, which have broader safe harbour schemes, such as Singapore, South Korea, the United Kingdom, the United States and other EU countries.

In our view, this draft recommendation would be achieved with the introduction and passage of the relevant amendments contained in the Exposure Draft *Copyright Amendment (Disability Access and Other Measures) Bill 2016*, which was released for public comment on 22 December 2015 by the Department of Communications and the Arts.

¹ Digital Industry Group Incorporated, Submission No 111 to Australian Productivity Commission, *Intellectual Property Arrangements*, 18 December 2015, 7.

Reforming the Inventive Step

In Chapter 6.3, the draft report recommends reforming the inventive step required for the granting of a standard patent. As the report explains, the High Court has described the minimum advance on the prior art required to meet the obviousness test as “a scintilla of invention.” This low standard is understood as asking whether a person skilled in the art would have been *directly led as a matter of course* to try the claimed invention.

DIGI supports the Commission’s recommendation that the obviousness test in Australia be raised or clarified so that it asks whether a course of action required to arrive at the invention or solution to the problem would have been obvious for a person skilled in the art to try with a reasonable expectation of success. This approach alters the current, low bar for patentability and is more consistent with the obviousness tests of other countries.

Raising the bar for patentability through this change will benefit innovation in Australia. The patent system can promote innovation by awarding exclusive rights that allow an inventor to recoup investment in research and development in exchange for disclosing the invention to the public. But the patent system must strike a careful balance to avoid harming follow-on and cumulative innovation, which is prevalent in the information technology and software industries. An essential feature of that balance is a sufficiently high standard of patentability. Patents on obvious technology -- that which is obvious to try with a reasonable expectation of success -- harm innovation in several ways, including by blocking access to technology, raising costs, and increasing uncertainty that deters R&D investment without providing a countervailing benefit.

Abolishing the Innovation Patent System

In Chapter 7, the draft report recommends that the Innovation Patent System (**IPS**), which is a “second tier” patent system, be abolished. The report explains that although the objective of the IPS was to promote innovation by small and medium sized enterprises, it is failing and having a negative effect on innovation overall. In particular, the report points to the uncertainty that innovation patents create for innovators, competitors and financiers. In addition the low innovative step required to obtain an innovation patent (lower than the inventive step required for standard patents) creates a multitude of low value patents that contribute to patent thickets.

DIGI agrees with this assessment of the IPS and the recommendation to abolish it. Standard patents can be an important driver of innovation when they are awarded for nonobvious advances in technology following rigorous examination. But innovation patents are granted without examination, adding uncertainty to the patent landscape for other innovators who are left to guess whether the owner will ever certify. Although innovation patents must be certified before being enforced, the low innovative step requirement allows for obvious patents. Once certified, obvious innovation patents are difficult to challenge, thus creating barriers to competition and innovation by others without providing a countervailing benefit to the public through the encouragement of significant new inventions. Moreover, innovation patents are

susceptible to abuse and unintended consequences, such as the ever-greening of standard patents by filing innovation patents for marginal improvements on a soon-to-expire standard patent; creating a patent thicket by filing multiple innovation patents for minor variations on a main invention; and capturing new market developments by filing multiple innovation patent applications as divisional applications.

Excluding Business Methods and Software from Patentability

In Chapter 8, the draft report recommends amending s. 18 of the Patents Act 1990 (Cth) to explicitly exclude business methods and software from being patentable subject matter. As explained in the draft report, business methods have not traditionally been considered patent eligible, have resulted in significant litigation costs, and generally do not appear to make significant contributions to innovation.

DIGI generally agrees with this assessment of the benefits (or lack thereof) of business method patents. While business, commercial, and financial methods and schemes can undoubtedly add value, their object is the creation and manipulation of purely abstract subject matter (e.g., legal, social, and commercial relationships and structures). In our view such schemes and methods should not be eligible for patent protection because they lack any technological contribution or effect. However, it is much less clear that this assessment can reasonably be extended to software patents in general. The majority of the studies and prior reviews relied on in Chapter 8 appear to have been focused primarily or exclusively on the patentability of business methods and do not directly support the conclusion that software should be excluded from eligibility. Moreover, it is unclear that the economic evidence – or marketplace reality – supports the suggestion (in Information Request 8.1) that “embedded” software is somehow different from “stand alone” software and therefore more deserving of patent protection. Finally, it is unclear that a broad exclusion of software would comply with Australia’s existing trade obligations. Accordingly, DIGI believes that – to the extent a recommendation on patent eligibility is included in the Commission’s final report – the recommendation should adopt an approach similar to those prevalent in Europe, China, the U.S., and other major trading partners, which exclude business methods from eligibility but preserve the patentability of software inventions that provide a technological contribution or represent an advance in a recognized field of technology.

Conclusion

DIGI appreciates the Commission’s careful consideration of the issues raised.

If implemented, these recommendations will go a long way towards ensuring that Australia’s IP system provides appropriate incentives for innovation, investment and the production of creative works, whilst not unreasonably impeding further innovation, competition, investment and access to goods and services for all Australians.