

3 June 2016

Attn: Commissioners Chester and Coppel
Intellectual Property Arrangements
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

**Patent and Trade Mark Attorneys
Australia and New Zealand**

1 Nicholson Street
Melbourne Victoria 3000
Australia

GPO Box 4387
Melbourne Victoria 3001
Australia

T +61 3 9254 2777

F +61 3 9254 2770

E mail@davies.com.au

W www.davies.com.au

ABN 22 077 969 519

In association with
Davies Collison Cave Law

**Re: Submissions on the Draft Report on Intellectual
Property Arrangements**

Dear Commissioners Chester and Coppel,

We submit an article that we have prepared discussing the possible implications of Draft Recommendation 6.1 of the *Draft Report on Intellectual Property Arrangements*. The article will be published by Davies Collison Cave shortly.

As we believe will be clear from the article, we consider the proposals set out in Draft Recommendation 6.1 misplaced. In particular, attempts to reduce flexibility in the obviousness test may unfairly curtail the access of certain inventions to patent protection. For example, the proposed obviousness test is not appropriate for assessing inventions that lie in perceiving the true nature of a problem to which straight forward experiments would then provide a solution. We further submit that there is nothing in the draft report to suggest that these types of inventions would not be socially valuable and additional inventions, as described in the bridging paragraph of pages 171 and 172 of the draft.

We are happy to answer any questions you may have in relation to the issues raised in the article.

Yours sincerely,

DAVIES COLLISON CAVE

**Edith Hamilton
Associate**

**Michael J Caine
Partner**



**AUSTRALIA
NEW ZEALAND
SINGAPORE
ASIA PACIFIC**

Less than obvious: the possible implications of the Productivity Commission's proposed changes to inventive step in Australia

Edith Hamilton and Michael Caine, Davies Collison Cave

The Productivity Commission's draft report on Australia's intellectual property arrangements (the Draft Report) has recommendations across the complete spectrum of intellectual property. However, this article will focus on only one of the Commission's recommendations for the patent system: the recommendation to alter Australia's test for an inventive step. At the time of writing, submissions on the Draft Report were still open.

In summary, the Commission recommends amending the definition of an inventive step in Australia to bring it into line with the definition used in Europe and proposes a new test to be applied when assessing obviousness.¹ The intent of the changes is to better target socially valuable inventions. The Commission also recommends that Australia advocate for an internationally coordinated increase in the inventive threshold in Australia and overseas.

DRAFT RECOMMENDATION 6.1

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

The Australian Government should state the following in the associated Explanatory Memorandum:

- the intent of this change is to better target socially valuable inventions
- the test should be applied by asking 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.

The Australian Government should explore opportunities to further raise the overall threshold for inventive step in collaboration with other countries in international forums.

The Commission considers the current patent system to be poorly targeted and failing the public by allowing too many low-value patents to be granted.² To address this, the Commission proposes increase the threshold test for obviousness.

The problematic scintilla

The Commission has disapprovingly referred to the current state of Australian Law as requiring only "*a scintilla of invention*" in order to pass the obviousness test. It believes that the recommended changes "*would shift the focus of the test away from the **quantitative 'scintilla of invention' concept toward more qualitative considerations** and thus better quality patents*" (emphasis added).³ However, the Commission's reference to a quantitative scintilla indicates that it has misunderstood the the principle of "*a scintilla of invention*". This principle is intended to convey that the test for obviousness is already a qualitative consideration, not one that is quantitative.

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

"The Plaintiffs' counsel...urge me not to be misled by the simplicity of the invention into holding that there is no [inventive] subject-matter; while the Defendants...have warned me against attributing an inventive quality to what is a mere workshop improvement. Nobody,

¹ *Productivity Commission, Intellectual Property Arrangements, Draft Report* ("Draft Report") p 182-5

² *Draft Report* p. 172-178

³ *Draft Report* p. 185

however, has told me, and I do not suppose anybody ever will tell me, what is the precise characteristic or quality the presence of which distinguishes invention from a workshop improvement. Day is day, and night is night, but who shall tell where day ends or night begins?...The truth is that, when once it had been found, as I find here, that the problem had waited solution for many years, and that the device is in fact novel and superior to what had gone before, and has been widely used, and used in preference to alternative devices, **it is, I think, practically impossible to say that there is not present that scintilla of invention necessary to support the Patent**" (emphasis added)

Qualitative or quantitative?

Indeed, WIPO's Standing Committee on the Law of Patents has generally observed that it may be misleading to talk about the level of inventive step, as the question as to whether an invention involves an inventive step (or is non-obvious) is not quantitative. Instead, it is a wholly objective qualitative test where we are concerned with the presence or lack of inventive step, rather than the level of inventiveness.⁴

What do we mean by "obvious"?

Obvious should be given its dictionary meaning, that is "*very plain*".⁵ It is also worth considering what obvious means relative to inventiveness. Obviousness and inventive step are two sides of the same coin, as noted in *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd* [2007] HCA 21 at [52]:

"Further, as recognised in *Beecham Group Ltd's (Amoxycillin) Application*, as a basic premise, **obviousness and inventiveness are antitheses** and the question is always "is the step taken over the prior art an 'obvious step' or 'an inventive step'"? An inventive step is often an issue "borne out by the evidence of the experts". There is no distinction between obviousness and a lack of inventive step". (emphasis added)

In Australia, an invention is taken to have an inventive step "*unless the invention would have been obvious*", whereas, for example, in Europe, an invention is considered to have involved an inventive step if "*it is not obvious*". The Commission believes that Australia's approach reverses the onus of proof as the test deems an invention to involve an inventive step unless it would be obvious, rather than requiring the applicant to prove sufficient inventiveness. However, we wonder whether this distinction is borne out in practice, particularly when we consider the approach the Australian and European Patent Offices take to examining for inventive step.

The proposed obviousness test

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

⁴ *Study on Inventive Step*, WIPO Standing Committee on the Law of Patents, 6 July 2015 SCP/22/3, at [92]

⁵ *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd* [2007] HCA 21 at [51] citing *Aktiebolaget Hässle v Alphapharm Pty Ltd* [2002] HCA 59 ("*Alphapharm*") at [34] per Gleeson CJ, Gaudron, Gummow and Hayne JJ, [85] per McHugh J, [144] per Kirby J, [190] per Callinan J.

The Commission points to the 'directly led as a matter of course' qualifier as setting a low quantum of advance, thus making it difficult to establish a lack of inventive step in Australia.⁶ Accordingly, the Commission seeks to increase the quantum of advance by replacing "*directly led as a matter of course*" with "*obvious*".

The current test with the 'directly led as a matter of course' qualifier is the reformulated 'Cripps question' posed by Graham J in *Olin Mathieson Chemical Corp v Biorex Laboratories Ltd* [1970] RPC 157. It is worth considering that reformulation when evaluating how significant a change from "*directly led as a matter of course*" to "*obvious*" is in reality.

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

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

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

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

Flexibility is Important

If the Commission's proposed change potentially has no material impact upon the quantum of advance required for inventiveness, should we be concerned about the Commission's recommendation? Another significant aspect of the recommended changes is that the Commission seeks to specify a single test to be applied when assessing for inventive step. However, with good reason, the courts have avoided trying to devise too prescriptive a test for inventive step. Such a test is exactly the kind of thing Lord Diplock warned against in *Johns-Manville Corp's Patent* [1967] RPC 479 at 493-4:

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

The High Court was also aware of the value in having a suitably flexible regime in which to test the validity of a patent for obviousness. On this issue, the majority of the High Court in

⁶ Draft Report p 182-3

Aktiebolaget Hässle v Alphapharm Pty Ltd [2002] HCA 59 ("*Alphapharm*") paraphrased Aickin J's conclusion in *Wellcome Foundation*⁷ as follows:⁸

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

The majority in *Alphapharm* observed that the "*directly be led as a matter of course to try with an expectation of success*" test for obviousness was not appropriate when the invention lay in perceiving "*the true nature of the problem*" to which "*straightforward experiments*" then would provide the solution.⁹ Similar limitations to the appropriateness of the test apply to the Commission's proposed test. Accordingly, by specifying a single obviousness test, the Commission runs the risk of shifting the balance of favour towards a particular type of invention. There is nothing in the Draft Report to suggest that inventions that may perceive the true nature of a problem have any less social value than those that might be more readily assessed using the Commission's proposed test.

The state of the art

The Commission considers Australia's definition of inventive step more complex than that of other jurisdictions because it divides background information into common general knowledge and prior art information.¹⁰ By proposing to follow Europe, the Commission says that we will simply direct decision makers to consider the prior art. However, this assertion is not borne out when you consider how inventive step is actually assessed before the European Patent Office.

In Europe, the information considered in assessing inventive step is still divided into the common general knowledge and the remainder of the state of the art that the person skilled in the art is able to access.¹¹

Europe's problem-and-solution approach

When it comes time to assess inventive step, Europe adopts the problem-and-solution approach. In this approach, the person skilled in the art is imbued with a common general knowledge and then it is necessary to determine the closest prior art. The closest prior art is described as "*that which in **one single reference** discloses the combination of features which constitutes the most promising starting point for development leading to the invention*". Once the closest prior art has been determined, it is then necessary to establish the "*objective technical problem*" to be solved, and finally consider whether or not the claimed invention, starting from the closest prior art and the objective technical problem, would have been obvious to the person skilled in the art.¹² Thus, in Europe also, there is a division of common general knowledge and prior art information.

Furthermore, similarly to Australia, this prior information can be taken alone or in combination with the common general knowledge. Also similarly to Australia, more than one

⁷ *Wellcome Foundation Ltd v VR Laboratories (Aust) Pty Ltd* (1981) 148 CLR 262 at 272, 279, 287; 34 ALR 213 at 217-18, 223, 229-30

⁸ *Alphapharm* at [38]

⁹ *Alphapharm* at [52].

¹⁰ *Draft Report* p 181

¹¹ *Guidelines for Examination in the EPO*, Part G, Ch. VII - Inventive Step, at Section 3.1

¹² *Guidelines for Examination in the EPO*, Part G, Ch. VII - Inventive Step, at Section 5

piece of prior art can be combined for the purposes of considering inventive step when it is reasonable to do so. Relevant factors to consider include:

- whether the content of the disclosures is such as to make it likely or unlikely that the person skilled in the art would combine them;
- whether the disclosures come from similar neighbouring or remote technical fields; and
- if there is any basis for the person skilled in the art to associate the two or more disclosures with each other.¹³

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

Remember to be flexible

Further on the approach taken in Europe, if an invention has an inventive step over the "closest prior art", then it is taken also to be inventive over all other, more remote publications. At best, the EPO Examination Guidelines foreshadow that, in some cases, there may be several equally valid starting points for the assessment of an inventive step, and that it may be necessary to apply the problem-and-solution approach to each of these starting points in turn.¹⁴ The problem-and-solution approach is adopted by the Technical Boards of Appeal in substantially all cases, even though the EPO itself recognises that this approach is not the only way of determining whether or not an invention involves an inventive step, and it has been observed that the problem-and-solution approach may be too rigid.¹⁵ For example, it may find an invention to involve an inventive step if there is no express "pointer" in the prior art to adopt the claimed solution, even where that solution might be otherwise thought to be obvious in regard to the prior art.¹⁶

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

How do we adjust inventive step?

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

- the definition of the invention itself;
- the prior art; and
- the person skilled in the art.¹⁷

¹³ *Guidelines for Examination in the EPO*, Part G, Ch. VII - Inventive Step, at Section 6

¹⁴ *Guidelines for Examination in the EPO*, Part G, Ch. VII - Inventive Step, at Section 5.1

¹⁵ Paper by Julian Crump, then Secretary General, now Vice President of FICPI provided as Annex 1C of the Institute of Patent and Trade Mark Attorneys of Australia and the Australian Federation of Intellectual Property Attorneys submission on the Exposure Draft of the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 and Explanatory Memorandum dated 4 April 2011 p 7

¹⁶ Paper by Julian Crump, then Secretary General, now Vice President of FICPI provided as Annex 1C of the Institute of Patent and Trade Mark Attorneys of Australia and the Australian Federation of Intellectual Property Attorneys submission on the Exposure Draft of the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 and Explanatory Memorandum dated 4 April 2011 p 7

¹⁷ *Draft Report* p 178-9

The Commission acknowledges that each of these three aspects was expanded or enhanced by the *Raising the Bar Act*.¹⁸ In particular, the requirements for supporting the claims defining the invention were enhanced, the common general knowledge possessed by the skilled person was expanded so that it is no longer confined to Australia, and the prior art base was expanded by removing the explicit requirement for prior art to be ascertained, understood and regarded as relevant. These changes were only implemented three years ago and there simply has not been enough time to adequately consider the full impact of them.

The Bane of Hindsight

Reminders of the qualitative nature of obviousness, cautions about avoiding an overly specific definition of the obviousness test, and the careful treatment and classification of the prior art, are all to guard against the effect of hindsight in the assessment of inventive step. The Commission acknowledges that during adjustment to a new provision there is potentially greater risk of hindsight bias. However, the Commission goes on to say that "*if there is a risk of hindsight bias it would be incumbent on patent applicants to prove otherwise — there should be a high burden of proof on firms and individuals requesting patent protection*".¹⁹ However, this underestimates the importance of establishing, from the outset, processes that minimize the prospect of indulging in hindsight. As the former Justice of the High Court of Australia, Susan Crennan, has noted:

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

*...[This can] raise interesting implications in respect to confident assertions that too many obvious patents are granted or that the threshold for inventiveness is not high enough. Simple inventions, especially simple combinations, are the most likely casualties of raising standards.*²⁰

Perhaps we should leave inventive step alone?

The Commission clearly intends for the proposed changes to materially affect the inventive step threshold in Australia. However, it is unclear whether adopting the approach taken in Europe will have any advantages. Instead, the Commission's recommendation restricting the test for obviousness may unfairly curtail the access of certain inventions to patent protection. In any event, there are already three different standards of inventive step to be considered for live Australian applications and patents, bearing in mind the changes that have already been made to the *Patents Act 1990*. We question whether it really is in the public interest to introduce a fourth standard. Instead, the Productivity Commission might benefit from considering the warnings against hindsight before announcing that the threshold needs to be changed.

We will wait and see what emerges in the final report of the Commission.

¹⁸ *Draft Report* p 178-9

¹⁹ *Draft Report* p 183

²⁰ Crennan, Susan. *Obviousness - different paths through Scylla and Charybdis*, Intellectual Property Forum: journal of the Intellectual and Industrial Property Society of Australia and New Zealand, No. 71, December 2007, p.17-8