

NEW ZEALAND INSTITUTE OF PATENT
ATTORNEYS INC (NZIPA)

Response by NZIPA to
the Issues Paper
released by The
Productivity
Commissions of
Australia and New
Zealand entitled
“Strengthening
economic relations
between Australia and
New Zealand”

31 May 2012

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1. The New Zealand Institute of Patent Attorneys

This submission is made by the New Zealand Institute of Patent Attorneys Incorporated (NZIPA).

NZIPA represents nearly all patent attorneys registered to practise before IPONZ who are resident in New Zealand.

The submission addresses areas where we have particular expertise (intellectual property (IP) and innovation) and experience (transferability of qualifications).

Accordingly, our submission touches on the topics addressed by the Issues Paper particularly under the headings of:

- Economic integration and transaction costs
- Principles for Trans-Tasman integration policy
- Possible areas for further integration.

And on the questions asked under numbers 22, 23, 30, 31 and 32.

Our answers are focussed on our experience with trans-Tasman regulation, integration of our respective professions and the ease with which our clients can access intellectual property services in their country of choice.

If further background or information is required from us, we would welcome the opportunity to provide it.

Any study of the impact of harmonisation on the examination of and/or laws affecting IP rights needs to consider:

- application for IP rights is a voluntary activity
- cost savings from harmonisation will mostly accrue to non Australian/New Zealand applicants
- granted IP rights are a regulation imposed on everyone else
- changes to registration processes or rules may increase overall costs for Australian/New Zealand businesses due to the increased cost to ensure they are free to operate clear of IP rights.

Our experience with TTMRA confirms that:

- increased transferability of qualifications can lead to a hollowing out of a profession, and increased costs of services
- there are real barriers to direct supply of services from one country to clients in another country such that the benefits of competition are largely restricted to non Australian/New Zealand applicants.

2. The importance of Intellectual Property (IP)

2.1 Role of innovation and intellectual property

As a nation we want to be smart, productive and afford quality infrastructure that supports the wellbeing of our families. We want to be the best we can be, and we want to support our innovators to make a difference in New Zealand and the world. That means we have to be smart about IP, and about our knowledge industries.

“Intellectual property or IP” is the term used to describe rights in intangible things. Those rights can be registered (as in the case of patents, designs, trade marks or plant variety rights) or unregistered (as in the case of copyright, trade secrets, goodwill and reputation).

Although the industry who advises businesses and individuals about IP rights is usually described as "patent attorneys", the practice is not so limited. Patent attorneys will routinely advise on a wide range of intellectual property issues as well as providing New Zealanders with advice on how to structure, fund and advance their businesses.

We wish to see an effective study conducted of the economic contribution of innovation in New Zealand. This study should also consider the dual impact of intellectual property: as an incentive to innovation, and as a barrier to competition.

The New Zealand IP environment is different to Australia in many ways other than just the present law.

New Zealand does not have a coherent and well-researched national IP strategy contextualised for New Zealand that focuses on maximising value from IP; Australia does. It is important that we have such a strategy.

We cannot rely upon ethereal 'gains' of economic integration. By moving to a single economic model without a supporting strategy within New Zealand, we risk New Zealand's future innovations.

A New Zealand strategy could address, among other things, inequities in transaction costs, the role of IPONZ, and identify multilateral strategies to support and foster the New Zealand IP environment.

2.2 What are registered IP rights?

Registered IP rights include patents, trade marks, designs and plant variety rights.

Registered trade marks play a role in protecting the goodwill and reputation of one trader from unfair competition by another trader. A registered trade mark provides the owner with the right to stop others from using the same or a similar trade mark in relation to the same or similar goods or services for which the trade mark is registered.

To the extent that registered trade marks are distinct from the products or services themselves, and to the extent that they cannot be used to inhibit parallel importation of imported products, registered trade marks do not significantly lessen competition. Competitors may simply avail themselves of alternative trade marks. Registered trade marks may be renewed in perpetuity.

Registered designs in New Zealand play a role in protecting the visual appearance of a product. A registered design provides the owner with the right to stop others from using the same design in relation to the article for which the design is registered. A design that is wholly functional is not registrable in New Zealand, although in practice the law allows registration of many designs that are largely functional.

Registered designs provide an absolute monopoly – infringement does not require actual copying. In practice, registered designs do not massively limit competition, as alternative designs which perform the same purpose are usually available. Registered designs have a finite term: 10 years in Australia, 15 years in New Zealand.

Patents provide absolute monopolies for inventions. A patentable invention must be a “manner of manufacture” and the invention defined by the claims of the patent must be “new” and “non-obvious”. These terms have all been developed over time through legislation and court decisions.

The law on these points differs significantly between Australia and New Zealand.

A patent does not grant the owner any right to perform the activity covered by the patent. The patent only grants the owner the right to exclude others.

The scope of any patent is not limited to the particular example of the invention devised by the patent applicant (the eventual patent owner). The applicant will seek to cover as much ground as possible that sufficiently relates to the devised example without rendering the claimed invention “obvious”.

The patent owner can enforce the patent against anyone in the jurisdiction.

Patents have a significant effect on competition.

At the very least, the cost of establishing freedom to operate in a jurisdiction is greatly increased according to the volume of patents that need to be considered. Each patent has a unique scope of monopoly, expressed in words which are interpreted according to prevailing legal rules of the jurisdiction. This task is non-trivial.

In some fields (characterised by discovery type inventions), such as pharmaceuticals, the existence of a patent is essentially a complete barrier to other market participants wishing to make or market a competing product. This can be a justifiable reward for the investment required to discover the protected compound or its properties.

In other fields (such as consumer products, packaging, IT and communications) the existence of a single patent is merely an impediment which increases costs and slows down the development cycle through rounds of consideration and re-design. However in these fields sophisticated patent strategies are being used to stifle competition: patent thickets, ring fencing and adaptive filing

strategies (allow a patent applicant to craft patent claims targeting a competing product after it is released).

These strategies are allowed within the present law and are therefore legitimate. But they can increase the cost to all enterprise (copiers and innovators alike), reduce competition, and may stifle development and progress.

A patent has a finite term (usually 21 years from first filing, in both Australia and New Zealand).

Example

Consider a careful enterprise wishing to release a product. They will have conducted research, established product requirements, and developed a marketable product. They must conduct searches of the register of designs of each jurisdiction where they wish to sell the product. Designs might be relevant to the whole product, part of the product, or to the packaging for the product. Multiple searches may therefore be required.

The enterprise must also search the register of patents in each jurisdiction where they wish to release a product. Patents might be relevant to the overall product, or to any aspect of the product or its manufacture. Multiple searches may be required.

Trade marks should also be searched to determine whether the name the product will be commercialised under is available for adoption. Again, multiple searches may be required.

Where any registered design or patent or trade mark of relevance is located it must be carefully considered in relation to the proposed product/product design. In some cases, the validity of a blocking patent or design or trade mark may need to be further researched. If necessary alternative designs for the product may be considered. A new trade mark may need to be chosen. In heavily patented fields this process may be iterative, usually with some uncertainties remaining.

Throughout this process the enterprise may also be considering what, if any, features of its own product may be innovative. They may also consider alternatives and variations. They may file patent applications of their own relating to these innovations. Design and

trade mark applications may also need to be evaluated as to their appropriateness.

2.3 Are IPONZ and IP Australia regulators, and if so, of whom?

Applicants for patents, registered designs or registered trade marks apply for their registrations with IPONZ in New Zealand, or with IP Australia, in Australia. We will refer to these organisations as the 'patent office'.

The function of the patent office is to determine whether the right requested in the application should be granted. In general the right should be granted if the right, once granted, is likely to be valid according to the law concerned.

Applying for registered IP rights is an entirely voluntary action. No person wishing to conduct an enterprise of making or selling any product or service in New Zealand or Australia is required to obtain a registered IP right.

On the other hand, the rights that are granted to others (like applicants, rights holders, proprietors or owners) by the patent office, regulate the conduct of third parties.

Each patent, registered design or trade mark represents a restraint against activity that might otherwise be allowed. Each patent (in particular) is equivalent to a private law regulating the conduct of any intending competitor.

Any increase in registered IP rights must be recognised as an increase in regulation of business.

2.4 Balancing is required

Present SEM initiatives set out to increase the efficiency of IP rights registration, being a benefit to IP applicants.

While this is laudable, participation in IP registration activity is a voluntary activity. Yet each IP right that is granted is a regulation imposed on all other market participants.

In considering the impact of further SEM proposals on productivity, the Commission should consider the likely changes in the volume of IP rights applying in each market, and the impact of those changes.

3. Effect of increasing harmonisation on patent attorneys, and on the availability of patent attorney services in New Zealand

3.1 Patent attorneys in New Zealand and Australia have long experience with Trans-Tasman integration

Patent attorneys are one of the registered professions covered by the Trans Tasman Mutual Recognition Act (TTMRA). As such, any New Zealand patent attorney may also register as an Australian patent attorney. Any Australian patent attorney may also register as a New Zealand patent attorney.

As at May 2012 there are 643 New Zealand registered patent attorneys. Of these 193 are resident in New Zealand. As at May 2012, there are 817 Australian registered patent attorneys. Of these 668 are resident in Australia.

Therefore a platform already exists for competition in patent attorney services. In each country some firms have elected to promote themselves as working in both New Zealand and Australia. Other firms have elected to promote themselves as specialising in just the country where they reside.

The market for patent attorney services in New Zealand and Australia involves distinguishable market segments:

- International clients.
These are entities that wish to secure IP rights in New Zealand (or Australia, or both) who do not reside in either New Zealand or Australia. There is strong competition between New Zealand and Australian attorneys to provide New Zealand and Australian services to these international clients. International clients account for a large majority of IP applications filed in New Zealand and Australia. The work is typically transactional and individual cases are of low value.
- New Zealand clients.
These entities desire wide ranging advice including:

- protecting the fruits of their research and development investment in New Zealand and elsewhere using strategies that include both registered and unregistered IP rights.
- ensuring that they can freely make and sell products or offer services in New Zealand and elsewhere without infringing the IP rights of others
- commercialising their IP
- licensing in third party IP
- IP culture and policy development

This work is not transactional. The advice involves knowledge of complex technology and how it is intended to be used, current legislation and case law, other issues facing the client and the client's overall business strategy. For the most part, these clients engage New Zealand resident patent attorneys. Primarily this is based on the ability and willingness of New Zealand attorneys to regularly meet face to face with these clients.

- Australian clients. These entities desire wide ranging advice including:
 - protecting the fruits of their research and development investment in Australia and elsewhere using strategies that include both registered and unregistered IP rights.
 - ensuring that they can freely make and sell products or offer services in Australia and elsewhere without infringing the IP rights of others
 - commercialising their IP
 - licensing in third party IP
 - IP culture and policy development

This work is not transactional. The advice involves knowledge of complex technology and how it is intended to be used, current legislation and case law, other issues facing the client and the client's overall business strategy. For the most part these clients engage Australian resident patent attorneys. Primarily this is based on the ability and willingness of Australian patent attorneys to regularly meet face to face with these clients.

There is no barrier to a New Zealand patent attorney providing a full range of services to an Australian resident client. Similarly, there is no barrier to an Australian resident patent attorney providing a full range services to a New Zealand resident client. However, 10 years

experience with TTMRA suggests that a local service provider is almost always more attractive to the client because of the ease of engagement.

3.2 Trans-Tasman firms have been tried, so far without success

It should be attractive to build a fully integrated firm with offices in New Zealand and in Australia.

Only two attempts have been made down this path to date. One involved a moderate sized New Zealand firm establishing a small branch office in Melbourne. This arrangement lasted some years, and is no longer in place.

The other involved a large New Zealand firm merging with a moderate size Sydney firm. This lasted about five years. The two firms have now demerged.

Reasons for the lack of success of such ventures may include:

- Differing regulatory environments for legal service providers and business generally
- Dramatically different remuneration expectations leading to internal tension
- Different growth and revenue profiles leading to internal tension
- Lack of any substantial economies due to scale (in part due to compliance cost of operating across multiple markets)
- Rationalisation of existing client bases due to potential conflicts

As you can see from the aggregate numbers of practising patent attorneys, this is a specialised field. But within the field further sub-specialisation is increasingly desirable. Patent attorneys must keep up to date with IP law in many jurisdictions, as most New Zealand or Australian clients have international ambitions, and the local patent attorney advises on and manages strategy for protection and freedom to operate internationally.

Patent attorneys must also understand and keep up with technology in their specialist fields, since patent attorneys often deal at the cutting edge of technology with scientists and engineers who are themselves, highly specialised.

This encourages firms wishing to provide a full service to a full range of New Zealand clients to:

- reach a certain critical size
- recruit sufficient patent attorneys to offer experienced advice across all technologies
- have a sufficient depth to enable strong financial performance
- adequate succession planning and coverage for departing staff.

Conversely firms that grow beyond this size face problems of conflicting clients. This is particularly problematic in New Zealand, Australia or both which have economies strongly weighted to particular technology sectors.

3.3 TTMRA has provided modest savings for New Zealand clients filing patent applications in Australia and Australian clients filing patent applications in New Zealand

Many New Zealand and Australian based patent attorney firms advise on both New Zealand and Australian law, to varying levels. Most will at least file applications for various IP rights in both countries.

Prior to TTMRA, a New Zealand client wishing to file in Australia typically involved their New Zealand patent attorney engaging an Australian patent attorney to file the application. Similarly an Australian client wishing to file in New Zealand typically involved their Australian patent attorney engaging a New Zealand patent attorney to file the application. This involved a degree of double handling with corresponding cost.

Post TTMRA, the New Zealand attorney acting for a New Zealand client will file the application in Australia without an intermediary Australian patent attorney. This has reduced the cost for the New Zealand client.

Where the New Zealand patent attorney has opted to continue to engage Australian patent attorneys they have been able to negotiate substantial reductions in fees compared with prior to TTMRA.

However, these savings are not substantial. For each application, the typical saving would be perhaps NZ\$2500 up to achieving a granted patent. New Zealand resident applicants file about 295 patent applications in Australia per year. The total available yearly saving might amount to \$737,500.00.

Similarly the typical saving for an Australian resident applicant filing in New Zealand would be perhaps NZ\$1500. Australian resident applicants file about 545 patent applications in New Zealand per year. The total available yearly saving might amount to \$817,500.00.

These are existence savings that applicants have already made through TTMRA, and any further integration is not going to result in greater further savings.

3.4 Trans-Tasman mobility has benefitted individual patent attorneys, mostly from New Zealand

Individual patent attorneys have become a mobile commodity. New Zealand and Australian patent attorneys may freely move to and practice in their country of choice.

International demand for patent services, and the continued strength of the Australian economy, means that Australia is presently more financially attractive than New Zealand.

A large number (about 20) of New Zealand originating attorneys now reside and practise in Australia. This comes from a small base. New Zealand presently has 193 resident patent attorneys.

A much smaller number (5) of Australian originating attorneys now reside and practise in New Zealand. This comes from a large base. Australian presently has 668 resident attorneys.

Both countries have a continual flow of attorneys to other countries, out of the industry or into retirement.

3.5 Drift of qualified attorneys to Australia acts to the detriment of New Zealand enterprises

The potential for the hollowing out of a local services industry is real.

Up until recently New Zealand patent attorney firms have been able to recruit and train new patent attorneys at a sufficient rate to maintain staffing levels. But the continual loss of qualified staff has limited the available growth.

Recently the wage gap with Australia has grown strongly.

This has resulted in an increasing flow of patent attorneys to Australia.

Wage competition with Australian firms is a substantial consideration in wages for New Zealand employed patent attorneys. Increasing wages in the Australian economy drives increases in costs for New Zealand patent attorney firms, which in turn are passed on to New Zealand clients.

New Zealand firms presently strive to balance these factors, but the overall result is a loss of skilled patent attorneys to Australia (where their skills are essentially unavailable to New Zealand enterprise), and increasing costs of patent attorney services in New Zealand.

Higher costs in Australia are reflected in the charges of Australian based firms. Potential competition by Australian firms does not constrain costs for New Zealand enterprise.

3.6 The direct importance of Intellectual Property (IP) industry – the BERL report

The total contribution of the patent industry to GDP is conservatively estimated at \$31M with a total output of \$156M each year. These figures only include the earnings and expenditure specific to patent work (which is conservatively only around 50% of the fee base of the average patent firm) and not the effect on GDP of revenue earned through commercial exploitation of IP.

Clearly it is the commercialisation process that brings the greatest gains to the New Zealand economy.

These conclusions are reinforced by the Institute's own economic analysis of the proposed changes under SEM prepared by the Bureau of Economic Research Limited (BERL). Of particular relevance to the establishment of a single regulatory framework for patents and trade marks are the conclusions:

“Changes heralded are intended to further the political and economic goals of closer economic integration with Australia. While economic integration is generally assumed to be beneficial, we note that care must be taken to structure relationships, regulations and institutions appropriately in order to balance the benefits between economies. This must be contextualised on an industry by industry basis.

A balanced and strategic approach to integration is particularly important when the relationship between economies seeking integration is not one of equality. Inequality may exist between economic markets in many ways. For example, one market may be smaller than the other, or one might have weaker performance. There may be natural or constructed absolute advantage in one market, and not the other. Where inequality exists, especially where it is multidimensional, the disadvantaged economy is likely to be an economic loser.

The New Zealand economy (GDP US\$140 Billion, World Bank Estimate, June 2010) is much smaller than the Australian economy (GDP approx US\$1.2 Trillion, World Bank Estimate, June 2010). In addition, it is a less efficient economy with GDP per capita in New Zealand at US\$32,500 (World Bank Estimate, June 2010) and Australia at US\$55,590 (World Bank Estimate, June 2010). Importantly, there are also institutional arrangements supporting the engagement of patent attorneys trading in Australia that, as they are not matched in New Zealand, offer an absolute advantage to Australian firms.

New Zealand has failed to undertake a substantive analysis of the effects of economic integration activities on the New Zealand patent attorney industry prior to commitment to harmonisation activities. It is the finding of the current study, that if care is not taken to structure relationships appropriately harmonisation will lead to a decline in the New Zealand patent attorney industry. New Zealand will lose a valuable resource in the

innovation ecosystem, and a valuable opportunity to grow a local knowledge industry.

Patent attorney firms are key members of New Zealand's innovation ecosystem. New Zealand businesses find them valuable, and consider them at their best when they are in a close working relationship with the innovating business. The opportunity cost of losing such a valuable industry is unknown. No substantive research has been undertaken on the effects of the patent attorney industry on revenues derived from patenting activities and technologies commercialised and exported from New Zealand. We are blind to the implications”.

As shown by the BERL Computable General Equilibrium model results, the New Zealand Patent Attorney industry could be sent into full industry decline if economic integration activities are not well informed and appropriately structured. Scenarios and data used to assess the effects on the industry and the economy are extremely conservative. The effects on the industry could be severe.

The decline is likely to be caused by:

- (a) removal of the absolute advantage that has led to patent attorneys being able to capture international revenues and build international linkages/expertise (this is likely to transfer to Australian resident firms)
- (b) restructuring of the training and regulatory framework towards an Australian bias
- (c) incentives encouraging research and development offered by the Australian Government, which are not matched in New Zealand, creating an absolute advantage for the Australian industry
- (d) lifestyle benefits derived from Australia's better performing economy attracting labour offshore
- (e) scale of economy and firms attracting firm relocation offshore
- (f) scale of Australian firms providing better reciprocity advantages for international referral partners.

The industry is small, and therefore vulnerable. That being said, a

well informed and appropriately structured integration could stimulate growth in the New Zealand patent attorney industry, ensuring that it continues to provide highly skilled and efficient services in the New Zealand economy.

Such an approach requires research, and detailed consultation with the industry in New Zealand (which the industry welcomes and will completely support). The structure applied must intentionally, strategically, realise New Zealand's potential.

4. Expect nett direct financial loss to Australia and New Zealand through greater harmonisation

4.1 Limited benefits of further harmonisation for New Zealand and Australian enterprise

MED commissioned a report by Sapere Research Group into Trans-Tasman harmonisation of intellectual property law regimes.

The Sapere report is equivocal about the nett economic benefit of the single trade mark and single patent examination proposals (an executive summary of its material conclusions / observations is attached).

There are some quite telling comments regarding the feedback Sapere received from patent attorneys and enterprises involved in IP on the one hand, and MED's perception on the other. Often they are diametrically opposed and yet MED has proceeded to make recommendations in favour of harmonisation.

As we have discussed above, most New Zealand and Australian patent attorneys are already qualified and do in fact to act before both IPONZ and IP Australia. As such, there is little duplication of effort (or "fat") when a New Zealand applicant files a patent application in Australia or vice versa.

4.2 Cost benefits accrue to non-Australasian applicants

Most IP applications in New Zealand and in Australia are filed by applicants from overseas (not from New Zealand or Australia). Therefore, for any overall cost reduction from filing simultaneously in both New Zealand and Australia, most of the aggregate saving will accrue to applicants from outside New Zealand and Australia.

4.3 This is a loss to Australia and New Zealand

Any aggregate saving by overseas applicants is made through a reduction in fees paid to Australian and New Zealand patent attorneys. This is a reduction in the export of services, without any commensurate benefit to the New Zealand or Australian economy as a whole.

5. Likely increase in cost for productive businesses through further harmonisation of IP laws and regulators

5.1 Harmonisation will lead to increased patent filing by non-AU/NZ applicants

Understanding the likely filing trends in a harmonised system requires some understanding of the way the global patent system operates, and comparable filing data in other countries.

Globally, patents are secured on a country by country basis, apart from three regional treaties. Two of the three regional treaties have effect in different country groups in Africa. These treaties can lead to the grant to of regional patents. The third regional treaty is the European Patent Convention. This can lead to a “European patent” which must then be validated, and later renewed, in each country the patent owner desires to cover.

Other treaties provide a degree of uniformity of law and allow a staged filing process.

In general, a first patent application for an invention must be filed before the invention is made public, or products using the invention are sold. This initial patent application is referred to as the “basic application”. This filing sets a period of 12 months for filing equivalent patent applications in any other country where the inventor/applicant wants patent protection for the invention. This period is set in the Paris Convention on Intellectual Property. Not all countries of the world are members of the Paris Convention, but the exceptions are now very few.

Since filing patent applications in a large number of countries is expensive, the convention year, and a further delay available for many countries under the Patent Cooperation Treaty, is very

valuable to applicants. However the value of delay to an applicant is potentially detrimental to everyone else, who cannot ascertain whether a patent application will be pursued in a particular territory during the period of delay.

Eventually the applicant files in the countries of interest. Patents generally provide the right to stop others from making, using or selling the protected invention in the territory covered by the patent. Most applicants settle for protecting an invention in a small subset of countries, prioritised according to the size of market for the product, and the location of key competitors.

In practise some technology is protected in a wider geographic spread than others. Commonly pharmaceuticals are protected much more widely than electronics for example.

Electronic or mechanical products often embody many independently protected inventions. This may account for the choice to file in fewer countries.

This filing pattern means that smaller markets enjoy a correspondingly smaller bundle of patents covering the same overall field of technology. For example, any given electronics patent in USA will have only a 1 in 100 chance of also being patented in NZ, and about a 1 in 10 chance of being patented in Australia.

The vast majority of patent applications filed in New Zealand and in Australia are filed by applicants that are not based in either New Zealand or Australia.

We expect that increased harmonisation with Australia will lead to an increase in filings from applicants outside Australia and New Zealand. The extent of the increase will depend on the nature and degree of harmonisation.

Common examination processes are most likely to cause a moderate increase (perhaps 50-100%) in patent filing in New Zealand as applicants tack a New Zealand patent application into a strategy that would previously have meant they only filed in Australia. A common patent would cause an increase in overall filings due to the increased market size covered by the patent. This would produce to a radical (500% or more) increase in patents covering New Zealand.

5.2 Increased patenting closes down opportunities

Each country has the same overall technology space. The patents granted in that country regulate activity in the technology space. Typically the number of patents granted in a country is closely related to the size of the market. In small markets, like New Zealand, the number of live granted patents can be less than 1% of the number of live granted patents in USA.

For New Zealand based businesses, this smaller number of patents offsets the inherent disadvantage of a smaller home market. This allows the business to commence and grow to a useful size without the additional impediment of a congested patent landscape. When the business is ready to export they may review their freedom to operate on a market-by-market basis. Once they become a truly global business they will begin assessing freedom to operate in their intended markets as an essential part of their development program.

Increased inward technology transfer is often cited as a key benefit of increased patenting. This overlooks the fact that every technology patented outside New Zealand is fully described in the published patent documents, even if those patents are never filed in New Zealand. Such technology is therefore available to a New Zealand enterprise to exploit in New Zealand and in any other unprotected market. If a New Zealand company desires to use the technology in other markets where patents are granted, they are in the same position as anyone else in ability to seek a licence (which is entirely within the option of the patent owner).

Globally, patent activity is enjoying strong growth. Businesses are using aggressive patenting strategy to get ahead. A large and complex pool of patents provides a minefield for competitors, acts as an arsenal for defensive purposes.

This is accompanied by exploitation strategies involving large scale licence offers. Some companies on the receiving end of these assertions would equate the practice to extortion or taxing. Generally the demand for payment is substantial, but individually less than the cost of challenging the assertion or the validity of the patent. This is a less common problem in relation to New Zealand patents, in large part as there are presently so many less patents to assert.

5.3 Greater cost to establish freedom to operate

The cost of establishing the freedom to operate for a new product, process or method is typically proportional to the volume of patents covering the field of technology. No review can be considered definitive, so most FTO reviews are conducted within a budget and with a desired degree of confidence in mind.

A typical review includes combinations of keyword, subject classification and proprietor searching, followed by increasingly deep iterative reviews of the patents and patent applications located. Each document must be individually reviewed, at least at a high level, and more relevant documents may need detailed consideration.

Any increase in patents filed (in a country) will increase the number of documents that must be considered in an FTO review – the technology field is the same, it is just more densely covered by potential patent traps.

A survey of large New Zealand export manufacturers of innovative products with a primary focus on USA would likely reveal that more money is spent researching the ability of an enterprise to operate in a particular field than is spent obtaining patent protection for the innovations involved. It would also reveal that patent freedom to operate is considered a key business risk. For these businesses, the opportunity afforded by the USA market is sufficient to justify this cost and risk.

For a small market such as New Zealand, any increase in freedom to operate costs or risk must pose a substantial barrier.

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