Submission

The Law Society of Western Australia
The voice of the legal profession in Western Australia

IP Australia

Innovation Patents – Raising the Step

Consultation Paper

To
Mr Brendan Bourke
Director, Domestic Policy
IP Australia
PO Box 200
WODEN ACT 2606

By email: MDB-Reform@IPAustralia.gov.au

Society Contact
Priya Pillay
Email ppillay@lawsocietywa.asn.au
Phone 08 9324 8647

Date
23 October 2012

Innovation Patents – Raising the Step
Consultation Paper (Paper)

The submissions of the Law Society of Western Australia (**Society**) in response to the Paper and to the Innovation Patent System more generally are set out below.

1. Proposal

The Paper identifies an emerging risk that the Innovation Patent system may be used in ways which would lead to undue costs to consumers and businesses that compete with owners of Innovation Patents (the "**Emerging Risk**").

The Paper refers to the decision of the Full Court of the Federal Court of Australia in *Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225 as confirming that the requirement for an innovative step is not an onerous one. This decision showed that innovation patents may be granted over enhancements which are obvious. This gives rise to the uncompetitive and unacceptable position where monopoly rights can be obtained for obvious inventions.

The Paper states that there is a need to ensure that Innovation Patents do not inappropriately extend the life of pharmaceutical patents and delay the introduction of less expensive generic medicines, leading to increased costs to consumers and an increase in government expenditure through the Pharmaceutical Benefits Scheme.

The Paper proposes that in order to address these concerns, amendments be made to the *Patents Act 1990* to raise the threshold of inventiveness to the same level as for Standard Patents. This approach is said to be consistent with the second tier patent systems operating in countries such as Germany and Japan.

2. Background to the Innovation Patent System

Before addressing the proposal set out in the Paper, it is useful to understand the policy objective that lead to the creation of the Innovation Patent System. The Innovation Patent System was introduced into Australia by amendments to the *Patents Act 1990* in 2001. The explanatory memorandum to the amending Act (140 of 2000) sets out the policy objective as follows:

> *"The purpose of the proposed innovation patent system is to stimulate innovation in Australian SMEs. It would do this by providing Australian businesses with industrial property rights for their lower level inventions. Industrial property rights are not available for these inventions at present, which means competitors may be able to copy them. For this reason, a firm making lower level inventions cannot be certain of capturing the benefits that come from their commercial exploitation. This lowers the incentive to innovate.*
>
> *The existing petty patent system, administered by IP Australia, has an inventive threshold the same as that for standard patents. This means that it does not meet the need Australian businesses have identified for lower level protection and which most overseas governments are already providing for their SMEs.*

The proposed Government action would modify the existing petty patent system so that it provides protection for lower level inventions. It would also reduce the compliance burden on users of the patent system by providing easier, cheaper and quicker rights for inventions than the rights currently provided by the petty patent system."

In his second reading speech in support of the amending Act, the Parliamentary Secretary to the Minister for Industry, Science and Resources, Mr Entsch, stated on 29 June 2000:

"In 1979 the government introduced the petty patent system to assist Australian small to medium business enterprises. The government intended the system to provide a quicker and cheaper form of patent right for inventions with a short commercial life. However, the petty patent system has had limited success in meeting its objectives and has not been well used…

ACIP's report Review of the Petty Patent System was released in August 1995. The review identified a `gap' in the protection provided by current intellectual property regimes. This `gap' related to incremental innovations that did not meet the inventive threshold requirements of the current standard or petty patent systems and were not appropriate for protection under the registered designs system. Many of the innovations developed by small to medium business enterprises fall within this gap. These innovations are often directed at improving, adapting and refining existing technology and although they may not represent major inventive advances they do have commercial value and play an important part in the commercialisation and application of technology.

In addition, although a single innovation may not equate to a significant inventive advance, over time a series of innovations may comprise the essential steps culminating in a major breakthrough. A system that protects lower level inventions enables small and medium business enterprises to realise the value of their contributions in an ongoing inventive process and also rewards innovative developments as they occur, without imposing the long lead times often associated with major breakthroughs.

The ACIP report recommended the implementation of a new `second-tier' patent system to fill the `gap' in current intellectual property protection regimes. Following consultation with a range of stakeholders, including the business community and professional groups, ACIP recommended the introduction of the innovation patent system.

The government has acted on these recommendations and devised a `second-tier' patent system to better address the needs of business, particularly small to medium enterprises. The innovation patent will be relatively inexpensive, quick and easy to obtain. It will provide the same scope of protection as the standard patent; however, it will require a lower inventive threshold than that required for a standard or a petty patent. An innovation patent will have a maximum patent term of eight years, compared to a 20-year term for a standard patent…

Although innovation patents will be available for most of the types of invention currently covered by standard patents, they will not be available for plants and animals, or biological processes for the generation of plants and animals. This exclusion does not include microbiological processes and innovation patents will be available for processes such as cheese and wine making and the synthesis of industrial compounds using micro-organisms."

In summary, the Innovation Patents System was introduced:

- To address under utilisation of the petty patent system and its failure to meet its policy objectives.
- Following an extensive consultation period and following an in depth report from ACIP on the perceived deficiencies in the then existing petty patent system.
- To protect lower level inventions which may not equate to significant inventive advances in their own right (such as improvements, adaptations and refinements to existing technology) but in combination with other innovations may comprise the essential steps culminating in a major breakthrough.
- To assist small and medium sized business enterprises to realise the value of their contributions in an ongoing inventive process.
- With a restriction that innovation patents were not available for plants and animals, or biological processes for the generation of plants and animals.

3. Judicial concerns raised in relation to Innovative Step

Putting aside the Paper for one moment, the Society notes the comments by Perram J in the Full Court of the Federal Court of Australia appeal in *Dura-Post (Australia) Pty Ltd v Delnorth Pty Ltd* [2009] FCAFC 81. At paragraphs 91 to 93, his Honour stated:

> *"...Section 7(4) provides:*
>
> > *For the purposes of this Act, an invention is to be taken to involve an innovative step when compared with the prior art base unless the invention would, to a person skilled in the relevant art, in the light of the common general knowledge as it existed in the patent area before the priority date of the relevant claim, only vary from the kinds of information set out in subsection (5) in ways that make no substantial contribution to the working of the invention.*
>
> *This cumbersome provision requires a comparison of the invention with the prior art base to identify differences and an analysis of whether those differences contribute substantially to "the working of the invention". If they do, the invention is then taken to involve an innovative step.*
>
> *The expression "the working of the invention" is, I think, ambiguous. The ambiguity springs from the circumstance that the word "invention" is capable of referring both to a device including an invention within it and also to the innovative subject matter itself. Thus, in ordinary parlance, both the internal combustion engine and the car containing it are inventions. That ambiguity gives rise to difficulties in s 7(4) because it is not immediately clear whether the expression "the working of the invention" refers to the way in which the device under consideration works as a whole (compare the car) or, instead, to the more limited question of how the innovative subject matter works (compare the engine)."*

While his Honour's concerns would likely be addressed by the amendments that are proposed in the Paper, for the reasons that follow, the Society submits that those amendments may not be effective in addressing the policy objectives of the Innovation Patent System outlined above while at the same time addressing the Emerging Risk.

The Society submits that as part of the ongoing Advisory Council on Intellectual Property (**ACIP**) investigation into the effectiveness of the Innovation Patent System in stimulating innovation by Australian small to medium sized business enterprises (the "**ACIP Review**"), his Honour's observations should be considered.

4. Concerns relating to the proposed amendments

The Paper proposes to amend the "inventiveness test" for Innovation Patents to replace the existing "innovative step" test with the same "inventive step" requirement that is currently required for Standard Patents.

Should the amendments proposed in the Paper be made, the key differences between Innovation Patents and Standard Patents will be as set out below:

Innovation Patent	**Standard Patent**
8 year term	20 year term
Limited to 5 claims	Unlimited claims
Granted after a formalities check but cannot be enforced until it has been examined and certified	Granted only after substantive examination
Grant may not be opposed	Grant may be opposed
May not be granted for inventions relating to plants, animals and biological processes for their generation (although microbiological processes and products of those processes are allowed)	May be granted for inventions relating to plants, animals and biological processes for their generation

Importantly, for validity purposes, the Paper proposes that Innovation Patents be identical to Standard Patents.

The Society is concerned that the proposed amendments are a return to a system that is substantially similar to the former patent system. The flaws of that system were the impetus for the creation of the Innovation Patent system. It is the Society's view that the proposed amendment will do nothing to promote the policy objective that gave rise to the Innovation Patent System, rather, the proposed amendment is more likely to render Innovation Patents unattractive to small and medium enterprises, as was the case with the former petty patent system.

5. Society's proposal

(a) Overall Submission

Since 28 February 2011 the ACIP Review has been ongoing. The Society submits that the ACIP Review should be allowed to run its course. If necessary, the scope of the ACIP Review could be expanded to address any of the Emerging Risks that are not the subject of the current review.

The proposed amendments in the absence of the careful consideration that ACIP is undertaking appears both rushed and ill considered. If after the ACIP Review has been completed, ACIP recommends the changes proposed in the Paper, then it is at that time that the amendments should be made.

(b) Pharmaceutical Substances

The Society notes that it is a substantial concern of the Government that the Innovation Patent System will be used by the pharmaceutical industry to provide a mechanism for the undesirable ever greening of patents over pharmaceutical products.

While concerns relating to the ever greening of pharmaceutical patents are well founded, as identified above, the proposal to raise the threshold for innovative step to that of inventive step, is likely to have serious unintended consequences.

The Society observes that the *Patents Act 1990* (Chapter 6, Part 3) already contains provisions that that are expressly directed toward the extension of the term of patents over pharmaceutical substances *per se*. The rationale for this extension is sound and relates to the substantial time needed to carry a pharmaceutical product through research and testing before it can be marketed. In this context, patents over pharmaceutical substances *per se* are already recognised within the *Patents Act 1990* as requiring special consideration.

The Society also observes that section 18(3) of the *Patents Act 1990* already contains restrictions on what may be considered to be a patentable invention for the purposes of the Innovation Patent System. The Society submits an amendment could be made to include a reference to pharmaceutical substances *per se* in section 18(3) of the Act, thereby excluding pharmaceutical substances from the operation of the Innovation Patent System.

This alternative amendment could be justified on the basis that the owners of patents over pharmaceutical substances *per se* already benefit from a specific mechanism to extend their patents. The Society submits that in circumstances where there is a strict regulatory regime governing the use and marketing of pharmaceutical substances *per se*, it may be that the incremental advances which the Parliament considered to be the appropriate subject matter for the Innovation Patent System are not capable of being met in relation to pharmaceutical substances *per se*. This might provide further justification for the removal of pharmaceutical substances *per* se from the Innovation Patent System.

Dr Christopher Kendall
President