Australian Government

IP Australia

Review of the Innovation Patent

Final Report

July 2006

CONTENTS

Terms of Reference 4
Executive summary 4
Background 7
Objectives of the Innovation Patent 8
Awareness of the Innovation Patent System 15
Innovative Step 17
Term of Innovation Patent 21
Number of Claims 21
Subject Matter of Innovation Patents 22
Innovation Patent Application Process 24
Divisional Applications and Conversion of Innovation Patent Applications 25
Dual Protection 26
Uncertified Innovation Patents 27
Enforcement and Revocation of Innovation Patents 28
Conclusion 30
Appendix 1 – Issues paper questions 33
Appendix 2 – List of submissions 34

Terms of Reference

To review the effectiveness of the innovation patent system particularly in relation to whether it meets its key objectives. The key objectives of the innovation patent include stimulating innovation, particularly in Australian Small to Medium Enterprises, by providing industrial property rights for lower level inventions.

Executive summary

The innovation patent was introduced in 2001 following an Advisory Council on Intellectual Property (ACIP) review of the petty patent system. The petty patent system was designed to provide a form of protection that was quick and easy to obtain, was relatively inexpensive and provided short term protection especially for inventions that had a short commercial life. Although the majority of users of the petty patent system were small to medium sized enterprises (SMEs), the system had limited success in meeting its intended objectives.

ACIP recommended that the petty patent system be replaced by a second tier patent protection system called the innovation patent system. This system would be quick, inexpensive and with a lower inventive threshold than that required for a standard patent. This would encourage Australian businesses, particularly SMEs, to develop their incremental inventions and market them in Australia. The Government accepted the majority of ACIP's recommendations, and committed to reviewing the innovation patent system within five years of its introduction to assess the effectiveness of the system.

Only a small number of submissions were made to the IP Australia review. This may reflect the relatively small number of those who are users of or directly affected by the innovation patent system, the limited length of time it has been in operation, and/or that no fundamental problems have manifested.

At this stage it appears that the objectives of the innovation patent are generally being met, and public awareness of the system appears to be reasonable. A preliminary review of the system in 2005 by the Intellectual Property Research Institute of Australia (IPRIA) found that, on balance, the objectives of the innovation patent appear to be met, and most submissions agreed with this. Although it is difficult to objectively measure whether low-level innovation has been stimulated by the innovation patent, the higher use of the system than was the case for the petty patent suggests that it has to some degree. The innovation patent is predominantly being used by Australian individuals and SMEs for less-knowledge intensive innovations. The innovation patent system is also generally speedier and has lower fees than the standard patent system, although the cost difference is marginal when an agent is employed.

However, there is preliminary evidence that a significant proportion of innovation patents are being used to obtain a form of quick protection for higher-level inventions while a standard patent is being pursued, rather than as the system was designed.

Recommendation 1
IP Australia should routinely assess the proportion of innovation patent applications that appear to be used for tactical reasons regarding higher-level inventions rather than as attempts to secure protection for lower-level inventions. This would help ensure that the system is predominantly being used as intended.

A significant problem of the system appears to be inadequate knowledge of the system by both applicants and other parties. The granting of unexamined innovation patents appears to result in a significant number of applicants and other parties not understanding what has been obtained, with some applicants either accidentally or deliberately misrepresenting their granted patents as enforceable rights.

Such costs of the system were largely anticipated at the time of its introduction, but were considered to be outweighed by the benefits of reducing time and cost for the majority of applicants, who do not need to have their patent fully assessed. This approach is supported by the fact that examination has been requested for only 22% of applications to date. Also, a significant number of applicants misunderstand other aspects of the system. Examples include the differences between innovation and provisional applications, the type and amount of information required in an application, and when requesting examination is appropriate to applicant needs.

The problems caused by the granting of unexamined innovation patents could be addressed by changing to grant only after full examination, or changing the name of a granted innovation patent to something less indicative of exclusive rights having been awarded. Such changes would of course involve their own costs and confusions. At this stage such changes do not appear warranted, when improved education and awareness programs could be attempted first. This would involve the provision of better education for applicants, grantees and those dealing with the owners of granted and certified innovation patents, such as when providing finance or when accused of infringing behaviour. This could be done as part of a general awareness-raising program that is already planned for 2006-07.

Recommendation 2
IP Australia should ensure the information and forms available to applicants on the key elements of the innovation patent, including that which is provided during the application process, meet the needs of customers. Particular issues that need to be addressed are the differences between the innovation patent and the provisional application, early publication of innovation patents, the difference between grant and certification and the amount of detail required in an application in order to achieve certification.

Recommendation 3
IP Australia should provide clear and easily accessible information on its website and in its literature, targeted towards interested third parties rather than applicants, on the differences between granted and certified innovation patents and the options available for questioning the validity of a patent.

Most of those who made submissions believed that innovative step was clearly a lower threshold than inventive step, and was a main reason for the reasonable level of use of the system. The latest opposition decisions by IP Australia support this view, however the level and effectiveness of innovative step can ultimately only be determined by the courts. Also, recent worldwide concerns over a possible proliferation of "trivial" patents creating barriers to innovation mean that the appropriateness of the innovation patent should be regularly reassessed.

Despite some concerns raised in submissions, the application and enforcement processes generally appear to be appropriate. At this stage there appears to be no reason to modify the eight year term, five claim limit or the subject matter covered. However, despite the clear intent of the innovation patent, there does appear to be a risk that a court would interpret the legislation to mean that the subject matter of an innovation patent would have to satisfy a threshold of inventiveness on the face of the specification that is higher than that of innovative step. This would undermine the system and significant modifications would be urgently required. It would be best to have the issue examined before such a situation eventuated.

Recommendation 4

IP Australia notes that the Advisory Council on Intellectual Property (ACIP) may be conducting a review of patentable subject matter in the near future. If so, ACIP should consider the inventiveness threshold for innovation patents as part of its review.

On 19 June 2006, the House of Representatives Standing Committee on Science and Innovation tabled the report of its inquiry into pathways to technological innovation. The Committee briefly considered the innovation patent, and recommended that IP Australia implement strategies to promote the uptake of the innovation patent, and report to the Government on this and on the effectiveness of the innovation patent in reducing costs for small to medium enterprises. The Government is yet to respond to this report.

Background

The innovation patent was introduced in 2001 following an Advisory Council on Intellectual Property (ACIP) review of the petty patent system. The introduction of the innovation patent system also reflected the Australian Government's commitment to innovation as detailed in the "*Backing Australia's Ability*" initiative.

The petty patent system was designed to provide a form of protection that was quick and easy to obtain, was relatively inexpensive and provided short term protection especially for inventions that had a short commercial life. Although the majority of users of the petty patent system were small to medium sized enterprises (SMEs), the system had limited success in meeting its intended objectives. ACIP identified a demand for industrial property rights for those lower level or incremental inventions that were not sufficiently inventive to qualify for standard or petty patent protection.

ACIP recommended that the petty patent system be replaced by a second tier patent protection system called the innovation patent system. This system would address the shortcomings of the petty patent system by introducing a lower inventive threshold than that required for a standard patent, therefore encouraging Australian businesses to develop their incremental inventions and market them in Australia. ACIP provided a total of 15 recommendations, with the Australian Government accepting or accepting in part the majority of these recommendations.

The Australian Government committed to reviewing the innovation patent system within five years of its introduction to assess the effectiveness of the system. IP Australia released an Issues Paper in September 2005, calling for submissions from interested parties. The Issues Paper was sent to Australian and New Zealand IP legal bodies, industry bodies, IP research centres and all Australian applicants who had filed three or more innovation patent applications. The paper is available at www.ipaustralia.gov.au/pdfs/news /InnovationPatentReviewr.pdf. A total of ten written submissions were received – five from attorney/legal professionals or associations, four from private industry and one from an individual inventor. All comments have been considered in the preparation of this report.

On 19 June 2006, the House of Representatives Standing Committee on Science and Innovation tabled the report of its inquiry into pathways to technological innovation. The Committee briefly considered the innovation patent and made the following recommendation:

> Recommendation 6. The Committee recommends that IP Australia implement strategies to promote the uptake of the innovation patent, and report to the Australian Government Minister for Industry by 30 June 2007 on the following:
>
> - the increased level of uptake for the innovation patent; and
> - the effectiveness of the innovation patent in reducing costs for small to medium enterprises.[1]

[1] See http://www.aph.gov.au/house/committee/scin/pathways/report.htm, Chapter 5, page 118.

Objectives of the Innovation Patent

The purpose of the innovation patent system is to stimulate innovation in Australian businesses, particularly Small to Medium Enterprises ('SMEs'), by providing a means for them to exclude their competitors from copying inventions in which they have invested money and effort to develop[2]. The innovation patent system aims to provide Australian businesses with quick, easy to obtain and relatively inexpensive protection for their lower level inventions that are not sufficiently inventive to qualify for standard patent protection.

The Intellectual Property Research Institute of Australia (IPRIA) has examined the innovation patent system in their review "*Australia's Second-Tier Patent System: A Preliminary Review*", Andrew F Christie and Sarah L Moritz, IPRIA Report No. 02/04, November 2004 (Revised April 2005)[3]. That review traces the history of both the petty patent system and the innovation patent system and addresses the question of "whether the petty and innovation patent systems have met, or meet, the objectives for which they were introduced". The IPRIA review found that, on balance, the objectives of the innovation patent appear to be met. The review stated:

> "The evidence also suggests that innovation patents meet their objective of catering for individual inventors and domestic innovation. Further, a greater number of innovation patent applications are made compared with petty patent applications. … As in the petty patent system, countries in the Asia-Pacific region and developing countries are over-represented among the number of foreign users of the innovation patent system compared with the standard patent system."

The IPRIA review also suggested that any further review of the innovation patent should include "an assessment of whether the objectives of the innovation patent system, which, on balance, appear to be met, remain appropriate for Australia today and for Australia for the future".

SMEs

It is difficult to determine exactly who is using the innovation patent system, as IP Australia only records patent applicant names, addresses and whether they are individuals or organisations. Details such as Australian and New Zealand Standard Industry Classifications (ANZSIC) and business sizes are not recorded, and Australian Business Numbers (ABNs) captured only rarely.

The IPRIA review showed that a "breakdown of applications according to individual and company applicants suggests that … innovation patents have, indeed, appealed specifically to individuals." Around 66% of innovation patent applications were found to be from individuals rather than organisations. This was similar to the breakdown for the petty patent system, but compared with only 15% of applications for standard patents being from individuals. The review stated: "Perhaps the longer term (eight years), the increased number of permitted claims, and the lower costs have in fact rectified some of the deficiencies of petty patents insofar as they served individual inventors".

---

[2] Revised Explanatory Memorandum to the Patents Amendment (Innovation Patents) Bill 2000.

[3] The IPRIA review is available at http://www.ipria.org/publications/AU_2nd-tier_Report-revised.pdf.

Analysis of a sample of the names of innovation applicants reveals that, although the majority appear to be SMEs, a significant number are recognisable as large, well known companies.

Domestic versus foreign use

The IPRIA review found that the innovation patent system was used more by domestic inventors, for whom it was primarily intended, than foreign inventors. 87% of all innovation patent applications were from Australians. Again this was similar to the breakdown for the petty patent system, but differed dramatically to the 12% for standard patents.

Of those applications from foreign applicants, there was only limited commonality between the top five countries for innovation patents and the top five for standard patents. A disproportionate amount of foreign users of the innovation patent system come from countries in the Asia-Pacific region and lesser-developed countries. IPRIA said that it would appear that the less expensive and quicker form of protection of second-tier patents appeals to innovators in those countries.

Low-level inventions

IPRIA found that innovation patents were sought for less knowledge-intensive technologies than were standard patents, as was intended. Interestingly, the main technologies covered by innovation and petty patents were found to be very similar, suggesting that characteristics of second-tier systems such as speed and reduced cost suit specific technologies, rather than the inventive threshold. The top five technology groups that were the subject of innovation patents were found to be:

1. Consumer goods and equipment
2. Civil engineering, building and mining
3. Transport
4. Information technology
5. Handling, storing, printing

By comparison, the top five technology groups for standard patents were:

1. Organic fine chemicals
2. Pharmaceuticals, cosmetics
3. Medical engineering
4. Telecommunications
5. Analysis, measurement, control.

IPRIA noted that more research was desirable in this area, such as to determine whether those technologies covered by the innovation patent had shorter commercial lives than those covered by standard patents.

Encouragement of innovation

It is very difficult to determine on an objective basis whether the innovation patent system has encouraged Australian businesses to develop incremental inventions. Research conducted by IPRIA in 2004 on how SMEs used IP rights in Australia did

not study innovation patents in particular[4]. However, patent applications are commonly seen as an indicator of innovation rates, and applications for innovation patents are almost double those that were received for petty patents (see Table 3 on page 15).

Although there can be many reasons why an application for an IP right does not proceed to grant, grant rates of applications can be an indicator of successful and commercially valuable innovation, rather than fruitless endeavours. 88% of innovation applications are granted as meeting the formality requirements, and 64% of those for which examination is requested are certified, similar to the 63% grant rate for petty patent applications.

However, only 13% of all innovation patent applications are certified, as only 22% of granted innovation patents have examination requested. It could be argued that this indicates sub-optimal encouragement of 'successful' innovation. However, the intent of the innovation patent system was that only those patents which needed to be enforced or clarified would incur the cost and delay of certification. The low certification rate indicates that this is indeed the practice. It is commonly believed that the great majority of patents are not of commercial value[5], so if examination was optional for standard patents, or had been for petty patents, those systems may well share similar grant rates.

There has been concern that some applicants use the innovation patent system for tactical purposes regarding higher-level inventions, rather than as attempts to protect lower-level inventions. IP Australia is aware that some applicants merely use the system as an inexpensive form of public disclosure, although no data is available on this. However, there is evidence that a significant number of innovation patents are apparently used to secure some form of early protection while a standard patent is being pursued.

IP Australia analysis found that, out of a total of 4200 innovation patent applications, 283 appear to be closely related to one or more standard applications filed by the same applicant since July 2002 (ie around 7%). Only standard applications filed since July 2002 were analysed due to the difficulties in aligning applicant names between the Patadmin and PAMS databases.

The 283 instances can be categorised as follows:

- the most common situation is the innovation patent sharing the same title and priority date as the standard patent. There may be more than one innovation patent for a single standard patent;
- a less common situation is the innovation patent with the same or similar title as the standard patent being filed within 18 months of the priority date of the standard patent;

[4] Paul H. Jensen & Elizabeth Webster, *SMEs and their Use of Intellectual Property Rights in Australia*, IPRIA Working Paper No. 09/04, August 2004.

[5] For example, see M.A. Lemley *Rational ignorance at the patent office*, UC Berkeley Law and Economics Working Paper 2000-16 (2000), and J.R. Allison et al. *Valuable patents* UC Berkeley Public Law Research Paper No. 133 (2003).

- occasionally there are standard and innovation patents with the same or similar title where the priority date of the innovation patent preceded the standard patent;
- there are only a few instances where the innovation patent was ceased following acceptance of the standard patent. This behaviour may be the clearest indicator of the innovation patent having a primarily tactical purpose. This number may be very low partly due to only a small number of standard patents filed since July 2002 reaching acceptance stage at this time, and earlier filed standard applications not being considered in the study.

Clearly analysis at this level has indicative value only. Some applications from the same applicant with the same or very similar title may well be for quite separate inventions, and so not done primarily for tactical reasons. A careful assessment of the exact claims of each patent application would be necessary for a definitive conclusion on the extent of this phenomenon.

In recent years concerns have increased worldwide over the possible proliferation of "trivial" patents that are creating barriers to innovation[6]. The concerns are that there has been a lowering of the inventive step threshold, leading to a rise in the number of unworthy patents being granted. It is alleged that this has created "patent thickets" that make it difficult for innovators to determine their freedom to operate in particular fields, thus impeding innovation and investment. Although these issues have been in relation to the inventive step requirement of standard patents, and the innovation patent serves quite a different purpose to the standard patent, its continued appropriateness may need to be assessed in this context.

Fees

The following table compares the official IP Australia fees for first eight years of the lives of innovation and standard patents.

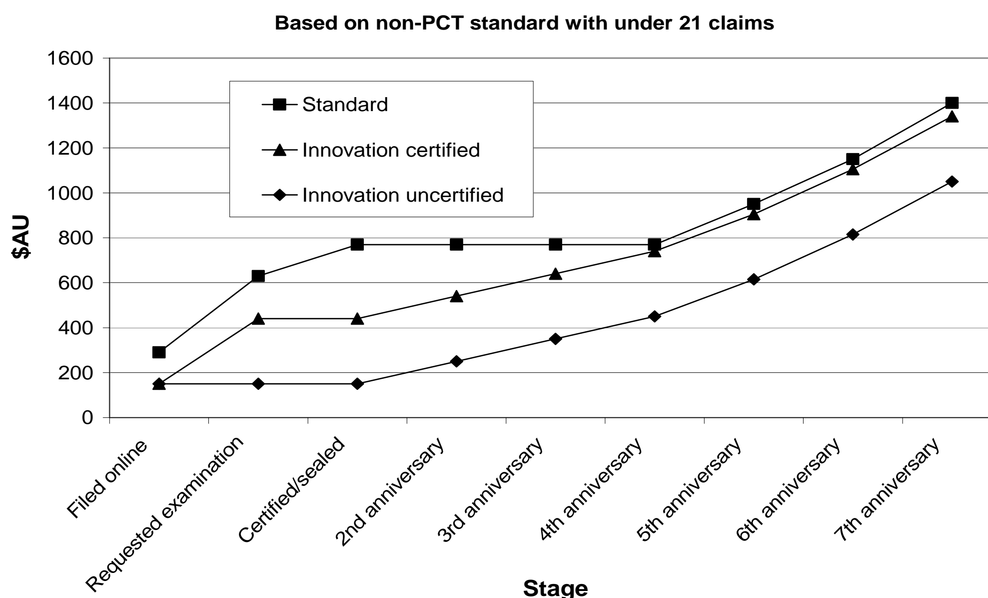
Table 1: Comparison of innovation and standard patent fees

	Innovation	Standard (non-PCT, under 21 claims)
Filing (online)	150	290
Request for examination	290	340
Acceptance	0	140
2nd anniversary	100	0
3rd anniversary	100	0
4th anniversary	100	0
5th anniversary	165	180
6th anniversary	200	200
7th anniversary	235	250

[6] See for example *To promote innovation: the proper balance of competition and patent law and policy*, US Federal Trade Commission (2003), *A patent system for the 21st century*, National Research Council of the National Academies (2004), *The inventive step requirement in United Kingdom patent law and practice*, UK Patent Office (2006).

Figure 1 shows the cumulative effect of these fees over time:

Figure 1: Comparison of cumulative official fees by process stage



This highlights that innovation patents fees are significantly less than standard patent fees up until the 4th anniversary, after which they are only marginally less for those that are certified. The major cause of the small difference in the later years is that, since November 1998, no maintenance fees have been required for the 3rd and 4th anniversaries of standard patents. Innovation patents require maintenance fees from 2nd anniversary, as this is considered to suit the quicker turn around time to grant/certification, and the expected shorter lifespan of the inventions protected.

The main cost in filing a patent application is usually the fees charged by agents for drafting the specification and prosecuting the application. However, around 66% of innovation patents are self-filed, in comparison to only 3% of standard patents.

Cost to IP Australia

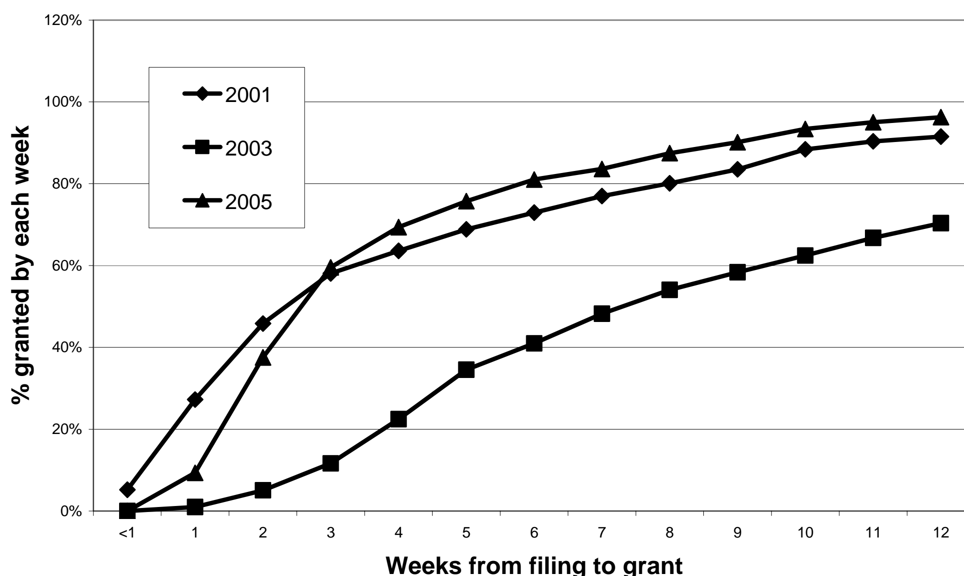
IP Australia operates on a cost recovery basis, in which the aim is for costs to be fully recovered within each of the five main product lines - patents, trade marks, designs, plant breeder's rights and the Professional Standards Board. Cross-subsidisation between product lines is to be avoided as much as possible. However, cross-subsidisation is permissible within each product line, such as granted patent renewal fees subsidising the examination of new patent applications.

The direct cost to IP Australia of administering the innovation patent system is not fully recovered through innovation patent fees, resulting in significant subsidisation by the standard patent system. This is justified on the policy grounds of there being a long term benefit to Australia in encouraging SMEs to innovate and be able to enter the patent system. All patent fees are currently being reviewed, with the new regime to be implemented some time in 2007.

Speed

Figure 2 shows the total percentage of innovation applications that are granted at each week after filing, for years 2001, 2003 and 2005.

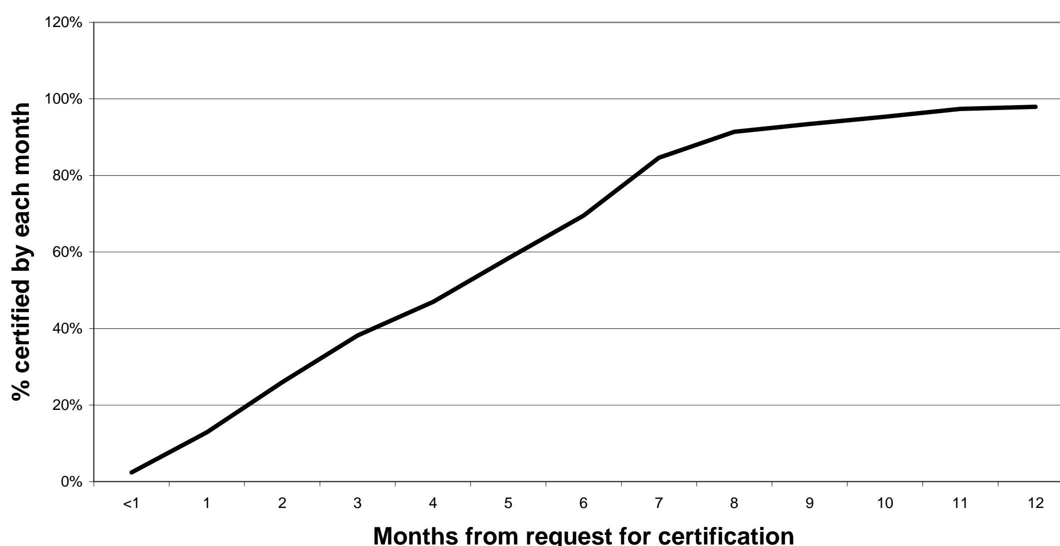
Figure 2: Innovation grant times



This shows that, despite significant variation in 2003, the time taken to grant innovation patents has generally met expectations and been within Customer Service standard, ie grant within one month for those applications meeting the grant criteria. Those outside this timeframe usually required some amendment to meet the criteria.

Figure 3 shows the total percentage of innovation patents that are certified by each month after examination has been requested.

Figure 3: Innovation patent certification times
(total for 2001-2005, as little variation by year)



Certification times depend as much on applicant behaviour and response times as on IP Australia practices. Nonetheless, this figure shows that the great majority of

innovation patents are certified within six months, the maximum limit set by the Act in most circumstances.

As applicant behaviour is such a critical factor, it is difficult to directly compare the timeframes of the entire application processes for standard and innovation patents. However, some comparison of individual stages can be done:

Table 2: Comparison of innovation and standard patent timeframes

	Innovation	**Standard**
Publication	Generally within 1 month of filing, although this increased temporarily in 2003.	Around 18 months after priority, ie usually 6 months after filing.
Examination	Immediately on request	Typically between 11 and 18 months after request, depending on the technology field. However, expedited examination can be requested, and is done within 1 to 2 months.
Certification / sealing	Great majority are certified within 8 months after examination requested.	Average of 11.5 months after examination begun. Maximum of 21 months, as per the legislation.
Oppositions	Can be filed at any time after certification.	Can only be filed within 3 months after acceptance.

Generally, the innovation patent does provide a much speedier form of protection than the standard patent. Standard patents can also be examined immediately upon filing, suggesting that applicants seeking quick protection for inventions with sufficient inventiveness could use this as an alternative. However, IP Australia may require that certain criteria are satisfied in order to ‘jump’ the examination queue.

Submissions

Most of those who made submissions to the review said that the innovation patent system was generally meeting its objectives. The Institute of Patent and Trademark Attorneys of Australia (IPTA) said that the innovation is clearly more widely used than the petty patent system it replaced, is quicker and less expensive than the standard patent, and in the experience of IPTA members, is used for protecting lower level inventions that could not be protected by way of a standard patent. IPTA believed that it is likely that a second tier system will remain desirable for the future. Nadia Odorico of Griffith Hack submitted that, in her own experience, the innovation patent satisfactorily fills a gap where previously inventors had no means of protection, and that its objectives are likely to remain relevant to SMEs and individuals.

Although Amcor Research & Technology had not been a large user of the innovation patent system, it submitted that it was a good idea with no obvious areas requiring improvement. The Australian Manufacturers’ Patents, Industrial Designs, Copyright and Trade Mark Association (AMPICTA) was unable to comment, as most of its members have a global IP strategy and so rely on the standard patent and PCT systems, rather than the innovation patent. Individual inventor Robert Hadaway

submitted that the innovation patent system has been a great step forward for inventors with lower level inventions, particularly due to its lower cost.

However, some serious concerns were raised. Tim Falkenhagen of Abrasion Resistant Materials Pty Ltd, the owner of several Australian and overseas patents, submitted that the granting of innovation patents after only a check of formalities created a great deal of doubt and was undermining the integrity of the standard patent system. As one of the reasons for introducing the innovation patent was its low cost, it was thought counter productive to grant innovation patents without examination and so place all Australian patentees at the risk of legal action in order to determine validity.

IPTA found it difficult to gauge the extent to which the innovation patent has encouraged individuals and SMEs to develop such inventions, and questioned whether the full potential of the system is understood by Australian industry. Gary Stokes of Barokes Wines, a boutique wine company, submitted that, because of some shortcomings in the opposition process, the innovation patent system may be misused by parties with large financial resources. Similarly, Robert Hadaway was of the opinion that the restrictions of the innovation patent protected big business rather than the public. Danielle Andrewartha suggested that the name of the system may still be a deterrent, as potential patentees might consider their works to be properly described as a type of ‘invention’ rather than an ‘innovation’.

Awareness of the Innovation Patent System

The Government agreed to undertake an awareness education program to inform potential users of how the innovation patent system worked, and how it differed from the petty patent system it replaced and the standard patent system.

The awareness program was developed by IP Australia, in close consultation with the Institute of Patent & Trade Mark Attorneys (IPTA), and utilised various mediums to deliver information and key messages to the stakeholders; namely patent and trade mark attorneys, SMEs and inventors associations. The mediums used included information sessions, A4 flyers and information kits and delivered information such as what an innovation patent was, the fees involved and how to apply for patents under this new patent system.

The statistics in Table 3 below depict the filings for innovation patents compared to petty patents and give an indication of the end users’ awareness of the innovation patent system. IP Australia receives nearly twice as many applications for innovation patents as it did for petty patents. Despite this, IP Australia feels that the system is still under-utilised, and is planning on undertaking more awareness raising programs in 2006-07.

Table 3: Innovation and Petty Patent Statistics

Financial year	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 July-April
APPLICATIONS								
Petty patent applications filed	526	640	562	0	0	0	0	0
Innovation patent applications filed	0	0	163	1050	995	1060	1120	890
GRANTS AND CERTIFICATIONS								
Petty patents sealed	265	356	362	146	11	0	0	0
Innovation patents sealed	0	0	69	924	721	1109	1022	797
Innovation patents examined	0	0	0	57	222	262	261	220
Innovation patents certified	0	0	0	88	96	180	153	169
OVERALL SUCCESS RATES								
Petty applications granted								63%
Innov applications sealed								88%
Innov exam requests certified								64%
INNOVATION PATENT LIFESPANS								
Average life (in years) of applications subsequently sealed*			3.3	3	2.7	2.2	2	NA
Average life (in years) of applications subsequently certified*			4.3	3.8	3.1	2.3	1.8	NA

*Note: patents may be renewed for more than one year in advance.

Source: IP Australia

The innovation patent was intended to be a suitable form of protection for those with little experience in the patent system. As perhaps could be expected of such a customer group, IP Australia has noted that a significant number of innovation applicants do not adequately understand the decisions they make or the requirements of the system. Common misunderstandings are:

- mistaking the innovation patent for a provisional application, or not understanding the time limit for conversion to a provisional application. This limits options for applicants and leads to the unintended early publication of material;
- disclosing very little or inappropriate information about the invention in their applications. This leads to applicants losing their priority date and having to re-apply, with the complication of some of the material having been published, and IP Australia expending resources on assessing applications that have no chance of certification;
- misunderstanding the difference between granted and certified patents, and when requesting certification is appropriate to applicant needs.

In light of some of these concerns, improvements have been made to the information on converting innovation patents to provisionals, and general information on innovation patents is now combined with standard patents, enabling applicants to better understand the differences between the two. A new provisional application form is also being developed.

Submissions

Although there appears to be general recognition in the market place of the existence of the innovation patent system and its availability to protect lower-level inventions, there appears to be wide spread confusion about the "protection" conferred by the grant of an innovation patent prior to certification. IPTA said:

> The efforts that have been made by IP Australia to improve the level of understanding should continue. Whilst improved education will assist it is most probably the case that a level of confusion will remain particularly because the term "patent" has since time immemorium referred to the existence of a monopoly.

Similarly, Nadia Odorico said:

> I do not believe the difference between certified and uncertified innovation patents is understood in the market place and that many uncertified innovation patents are perceived as having a greater monopoly than what they would actually have. My concern is that this is deterring valid competition from the market place and that users of the system are taking advantage of, and even replying on, this misconception.

Amcor Research & Technology could see the potential for less experienced users to not fully understand the difference between uncertified and certified patents.

Innovative Step

The petty patent system was introduced to provide a patent protection system for inventions of short commercial life. The inventive threshold for an invention under the petty patent system equalled that of standard patents, that is the invention had to be novel and comprise an inventive step. However ACIP recommended that a lower inventive threshold was required in a second tier patent system, suggesting that a lower level of inventiveness would encourage Australian businesses, particularly SMEs, to develop their incremental inventions and market them in Australia. ACIP further recommended that the inventive threshold should require that the invention be novel and "if an innovation varies from a previously publicly available article, product or process only in ways which make no substantial contribution to the effect of the product or working of the article or process, then it cannot be considered novel". This was based on the first half of the novelty test in *Griffith v Isaacs* [1942] AOJP 739 at 740; 1B IPR 619:

> *Where variations from a device previously published consist in matters which make no substantial contributions to the working of the thing or involve no ingenuity or inventive step and the merit of the two things, considered as inventions, is the same, it is impossible to treat the differences as giving novelty.*

ACIP's recommendation saw the introduction of the "innovative step" (Section 7(4) of the *Patents Act 1990* ('the *Patents Act*')) when the innovation patent system was introduced in 2001. Section 7(4) of the *Patents Act* states:

> *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.*

The Revised Explanatory Memorandum to the *Patents Amendment (Innovation Patents) Bill 2000* provides some further guidance on the meaning of "substantial contribution to the working of the invention", stating that to satisfy the innovative step requirement, an invention must differ from what is already known "in a way that is not merely superficial or peripheral to the invention".

Volume 2 of the Examiner's Manual of Practice and Procedure states:

> *The test for an innovative step requires comparison of the invention with prior art information, and whether a person skilled in the art would in the light of the common general knowledge at the priority date consider the difference as making a substantial contribution to the working of the invention…*
>
> *As to the level of contribution necessary to be "substantial" and thus meet the innovative step test, no definitive measure applies and each invention needs to be assessed on its merits given the nature of the invention and the advance over the prior art information. In assessing the extent of any contribution to the working of the invention due to the variation from the prior art, it needs to be borne in mind that no feature of a claim which is an inessential feature thereof could possibly make a "substantial" contribution to the working of the invention defined.*
>
> *Where the claimed invention differs from the prior art information and yet operates in substantially the same way, the feature in which the difference resides is unlikely to be of practical significance to the way the invention works. As a result there would not be a substantial contribution to the working of the invention given the difference and hence no innovative step involved.*

More specific guidance on the meaning of "substantial contribution" can be gained from those cases which applied the test for novelty as stated in *Griffin v Isaacs*.

Two IP Australia hearing decisions issued since submissions were made to this review have provided guidance on what constitutes an innovative step. On 12 December 2005 IP Australia issued the decision *Barokes Pty Ltd v Amcor Packaging (Australia) Pty Ltd* [2005] APO 56 on an opposition to an innovation patent for a process of packaging wine in aluminium cans such that the quality of the wine did not deteriorate significantly on storage. The hearing officer found that the can pressure defined in the claim appeared to be standard in the art and therefore did not make a substantial contribution to the working of the invention. However, the claim identified at least two other chemical parameters and defined their limits in order to improve the preservation characteristics of canned wine. These variations from the prior art were determined to be non-trivial and made a substantial contribution to the working of the invention and so lent an innovative step.

The 24 February 2006 IP Australia decision *The Smith Family, MCK Pacific Pty Ltd and Foss Manufacturing Company v INC Corporation Pty Ltd* [2006] APO 3 regarded an opposition to an innovation patent for thermoformable acoustic sheets. The hearing officer found that all the features defined in the claims were essential,

"not merely superficial or peripheral to the invention", and had a practical impact on the functionality of the claimed invention. Accordingly, any variation between the claim and the prior art was significant. As insufficient detail was provided on the exact differences between the invention and the prior art, no proper determination regarding innovative step could be made and the invention was assumed to involve an innovative step.

One commentator believed that, following this decision, opponents to innovation patents would have considerable difficulty invalidating a patent for want of an innovative step:

> The words "practical impact on the functionality of the invention" appear to have a similar broad conceptual connotation to the term "substantial contribution to the working of the invention". However, "practical impact" sits more comfortably with an allegation that an innovative difference improves the performance qualities of an invention without making a difference in the way the invention works. It seems to follow that any difference between the claimed invention and the prior art that is found to be essential will arguably be innovative on the basis of improved performance. Hence, the quantum of difference between the claimed invention and the prior art become less important and the question of whether the claimed invention achieves its object becomes more important.
>
> In view of the above, it is difficult to see an innovation patent being held to be novel but lacking an innovative step because the words "practical impact" account for the performance qualities, for example efficiency, speed and accuracy, of the invention in addition to the actual way in which the invention works.
>
> The words imported by the delegate from the Patent Office Manual expand the scope of the legislation by making it easier for innovation patentees to rely on performance qualities as a basis for demonstrating that an invention has an innovative step, once the invention is shown to differ from prior art by a feature that is essential.[7]

Apart from the invention needing to make a substantial contribution to the working of the invention, the major differences between an innovative step and an inventive step as used for a standard patent, is that an innovative step cannot rely on common general knowledge per se, there is no requirement that an invention must be non-obvious and even though the prior art base is the same, there is no limitation that the information has to have been "ascertained, understood and regarded as relevant to work in the relevant art".

Submissions

Most of those who made submissions believed that, despite the lack of guidance from the courts on innovative step, it was clearly a lower threshold than inventive step. IPTA said that, although the effectiveness of innovative step would ultimately be determined by the courts, the intention of the legislation to lower the threshold has clearly been responsible for the level of use of the system. Danielle Andrewartha was of the opinion that the lower threshold was in line with the objectives of the system. Similarly, Nadia Odorico said:

[7] *An innovative step for IP Australia,* NeedToKnow Issue No. 10, 6 April 2006, Nick Hunter, Griffith Hack, http://www.griffithhack.com.au/news/newsletters/GH_Needtoknow_10.htm (viewed 4 May 2006).

> The main advantage of the innovation patent over the petty patent system is the lower level of inventiveness required to obtain a patent. This has proved invaluable to businesses and individuals where a level of doubt exists as to inventiveness. Again, and from a patentability perspective, the innovation patent has provided an attractive alternative to the more rigorous requirements of a standard patent.

However, Blake Dawson Waldron (BDW) submitted that, despite intentions, it is not clear that innovative step provides a lower inventiveness threshold than inventive step for the following reasons:

- Due to a lack of relevant guidance, the courts are likely to treat the substantial contribution test like obviousness, and ask "does the person skilled in the art think that a substantial contribution has been made to the working of the invention?" BDW thought that this did not clearly lower the threshold, as the concepts of obviousness and substantial contribution are quite distinct, albeit potentially overlapping.
- Inventive step is tested against the common general knowledge either separately or together with the extra prior art information, while innovative step is only tested against prior art information. The intention of this was probably to lower the inventiveness threshold by making it harder to prove there was no innovative step. However, BDW submitted that common general knowledge is brought into both tests by the phrase 'in light of the common general knowledge', which possibly renders the tests the same.
- There is no requirement that the extra prior art information which can be added for the purpose of innovative step must be information that the person skilled in the relevant art could be reasonably expected to have ascertained, understood and regarded as relevant to the priority date. BDW argues that this may in fact raise the innovative step above inventive step because all information is relevant.

Justin Blows and David Clark of Blake Dawson Waldron have since commented that the INC Corporation decision does provide a clear statement on how IP Australia interprets the phrase 'substantial contribution'. However:

> The test for innovative step requires that the contribution be judged by a person skilled in the art (PSA) and in light of the common general knowledge (CGK). However, the deputy commissioner does not discuss the PSA or CGK in the [INC Corporation] decision. It appears that the deputy commissioner has applied the test for substantial contribution as defined in *Griffin v Isaacs* rather than the test for innovative step as is required by the *Patents Act*.[8]

Danielle Andrewartha submitted that the test has been met with uncertainty and confusion, so the public would benefit from increased guidance through awareness campaigns and marketing. In line with the international focus of its members, AMPICTA said that its members are not in a position to "take a chance" that a foreign patent application based upon an Australian innovation patent will or will not satisfy the patentability requirements in the US, Canada, EPO and other regional patent offices. It should be noted that both innovation patents and standard patents can be based on provisional applications.

[8] *Innovative step: clarification at last?*, Australian Intellectual Property Law Bulletin Vol. 19 No. 2 June 2006, Justin Blows and David Clark, Blake Dawson Waldron.

Term of Innovation Patent

Providing exclusive rights to an inventor is at a cost to the rights of the general public, as it prevents them using the ideas embodied in the product or process without the permission of the owner of the patent. This means the level of advantage to the inventor must be in balance with the level of contribution the invention makes to the market place. Therefore as the innovation patent has a lower inventive threshold than for a standard patent, the term of protection is also lower.[9] The term for an innovation patent is 8 years from the date of filing the application.

This 8 year term is believed to be a compromise to cover: the competing needs of owners and the public; the need to provide a suitable balance between the scope of rights and the level of inventiveness; and the need to provide sufficient development and marketing time for the inventor to receive the commercial rewards of the invention.[10]

Although only five years of data is available, the average lifespan of sealed innovation patents is around three years, and the average lifespan of certified innovation patents is around four years. These figures would be expected to increase when at least eight years of data becomes available.

Submissions

Some submissions were tentative about the eight year term. IPTA said that, while it is still too early to properly assess whether the eight year term has been appropriate, there appears to be no strong reason to suggest that it is not a reasonable compromise. Nadia Odorico said:

> While clients appear to be happy with the eight year term, whether this is long enough remains to be seen. It always takes longer for a product to get to market, or a process to be implemented, than the client expects.

Robert Hadaway suggested that, as it takes several years to develop and market an idea, an innovation patent should be able to be filed within two years of a provisional application instead of one year, even if this involved an increased cost. This would give a total of ten years from the first application date.

Number of Claims

The introduction of the innovation patent system saw an increase from 3 claims in the petty patent system to 5 claims, wherein the 5 claims could either be independent or dependent claims. This increase was to allow the applicants more flexibility and to make it easier and cheaper to prepare a specification than under the petty patent system.

The rationale behind limiting the number of claims to 5 was that innovation patents would be for protecting inventions demonstrating simpler advances and having a lower inventive height than the inventions covered by standard patents. Consequently,

[9] Government's response to the recommendations of the ACIP Report "Review of the Petty Patent System", available at http://www.ipaustralia.gov.au/patents/what_innovation_review.shtml
[10] Government's response to the recommendations of the ACIP Report "Review of the Petty Patent System"

a large number of claims would be unwarranted and would run counter to the objective of keeping the system simple.[11]

Submissions

IPTA said that five claims appears to be an appropriate number for most of the subject matter suitable for innovation patent protection. Nadia Odorico said:

> At times I have found it a little difficult to restrict the number of claims to 5, but in such situations we tend to insert as many claims as we need and then only cut back to 5 during certification, by which stage we may have a better idea of which direction the applicant has headed with the invention.

Subject Matter of Innovation Patents

The innovation patent system provides for the protection of the same subject matter protectable under the standard patent system, with the proviso that animals and plants, or biological processes for the generation of animals and plants are excluded.

Although it was anticipated that the innovation patent system would be mainly used for inventions comprising simple tools, utensils, machinery or equipment, the same subject matter allowed for a standard patent was allowed under the innovation system so that the new system did not preclude the innovation patent system from covering new and emerging technologies.[12]
The IPRIA review on Australia's second tier patent systems found that the technology groups represented among innovation patents differed from those represented among standard patents. The most commonly represented technology groups for innovation patents from 2001 to 2003 were: consumer goods and equipment; civil engineering, building, mining; transport; information technology; handling; printing. IPRIA concluded these were all industries in which products may have short life cycles. The main technology groups for standard patents, on the other hand, were all knowledge-intensive areas.

In light of the exclusion of animals and plants, or biological processes for the generation of animals and plants, ACIP reviewed this issue in their report "Should plant and animal subject matter be excluded from protection by the innovation patent?" published November 2004. The report concluded there was no immediate reason to extend the innovation patent to cover plant and animal material.[13]

Innovation patents could be expected to be suitable for protecting business methods or schemes. IP Australia hearing decision *Re Innovation Patent by Steven John Grant* (2004) APO 11 related to a 'pure' business scheme, ie one that did not involve physical apparatus of any kind. The scheme was for protecting an asset against loss of ownership as a result of a legal liability. The hearing officer found that the invention did not relate to an artificially created state of affairs, as traditionally this required the application of science or technology. The alleged invention did not involve the application of a newly discovered law of nature, nor the application of any technology to implement the scheme. Rather the alleged invention was a discovery in relation to a

---

[11] Government's response to the recommendations of the ACIP Report "Review of the Petty Patent System"
[12] Government's response to the recommendations of the ACIP Report "Review of the Petty Patent System"
[13] The ACIP report "Should plant and animal matter be excluded from protection by the innovation patent?" is at http://www.acip.gov.au/.

law of the Australian Parliament. The principles established in this decision apply equally to standard patents.

On appeal to the Federal Court, the judge found that the scheme was not a manner of manufacture for a different reason. Following the principles set out in *National Research Development Corporation v Commissioner of Patents* (1959) 102 CLR 252, the purpose of patents is to provide a net economic benefit to the country as a whole. However, the claimed invention was determined to merely advance private interests at the expense of the community[14].

In IP Australia decision *Barokes Pty Ltd v Amcor Packaging (Australia) Pty Ltd*, the opponent submitted that as, the opening words of s18(1A) for innovation patents are the same as the opening words of s18(1) for standard patents, the same threshold requirement for patentability applied. This test requires a consideration as to whether it is apparent on the face of the specification that the quality of inventiveness necessary for there to be a proper subject of letters patent under the Statute of Monopolies is present. If not, then the basis for a patentable invention under s.18(1)(a) has not been met and there is no need to consider the requirements of manner of manufacture, novelty and inventive/innovative step[15]. The hearing officer found that such an interpretation did not reflect the intention of Parliament:

> *Section 7 of the Patents Act 1990 clearly includes a lower inventive threshold requirement for innovation patents that is defined in terms of a substantial contribution made by the invention over the prior art in light of the knowledge of the skilled person, but does not involve any considerations of obviousness…I do not believe it is a proper application of the legislation to say that, on one hand, the invention claimed in an innovation patent needs to only satisfy a lower threshold in comparison to prior art, but on the other hand, must make the leap to a higher threshold in light of what is disclosed on the face of the specification. This defeats the intention of Parliament.*

Despite the clear intent of the innovation patent, there does appear to be a risk that a court would interpret the legislation to mean that the subject matter of an innovation patent would have to satisfy a threshold of inventiveness on the face of the specification that is higher than that of innovative step.

Submissions

No comments were received on the issue of patentable subject matter.

---

[14] *Grant v Commissioner of Patents* (2005) FCA 1100.

[15] *Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* [1995] 183 CLR 655 (*Phillips v Mirabella*), *Bristol-Myers Squibb Company v FH Faulding & Co Ltd* [2000] 46 IPR 533.

Innovation Patent Application Process

1. Processing of Innovation Patents

To apply for an innovation patent, applicants are required to complete an innovation patent request form, which is available in paper form and online. This form requires details such as the invention title, the applicant/s, the inventor/s and address for service. The time frame between filing an innovation patent application and grant of the innovation patent is no longer than three months and is generally within 3 weeks. During this processing period applicants are able to amend the application in various ways. For example they are able to convert their innovation patent into a standard patent, are able to provide additional information, or amend previously filed information. After the innovation patent has passed formalities examination and is granted, applicants are restricted in the changes they can make. For example they are unable to convert their innovation patent to a standard patent.

Due to these restrictions post grant, if an applicant changes their mind as to what type of protection they want or wish to add or amend information to their specification they have a matter of days rather than weeks or months to undertake these options. Further, if an applicant fails to identify an omission or mistake in their patent request form prior to grant, the incorrect information will remain published as regulation 10.3(9) prevents the amendment of the patent request after grant of the patent.

IP Australia has also observed that some unrepresented applicants have difficulty with the present application forms. These difficulties can result in incorrect information being published on the patent request, which as noted above is unable to be amended.

2. Formalities

The formalities requirements are detailed in paragraph 3.2B of the *Patents Regulations 1991* ('the *Patents Regulations*') in accordance with subsection 52(1) of the Patents Act. These include checking that the application does not include "scandalous matter", the application is not in respect of a human, plant, animal, or biological processes for their generation and the applicant is an eligible person. If the application passes formalities examination, the application will be granted.

Formalities examination only requires that an innovation patent application includes information that appears to be a description. This may comprise a description, claims or drawings. Therefore if an application containing only a diagram passes all other formalities checks, an uncertified innovation patent will be granted based on this document. To date, 88% of applications have been sealed, 22% of applications have had full examination requested, and 64% of such requests have resulted in successful certification.

3. Publication of Innovation Patent Applications

Under the innovation patent system, innovation patents are published as soon as formalities examination has been completed, and no later than three months after filing. This early publication is in place to keep the public abreast of advances in the relevant technology and gives other innovators an opportunity to request early examination. Early publication is also in accord with the major tenet of the patent

system, namely, publication of advances in technology in exchange for industrial property rights.[16]

Submissions

IPTA submitted that members have had generally positive experiences in relation to the procedural aspects of the innovation patent, although the time frames to grant and certification have not always been as short as desired. Nadia Odorico of Griffith Hack said that clients have been very impressed with the speed of grant of an innovation patent and patent attorneys have been impressed with the speed of examination for certification.

Robert Hadaway found the fee structure for innovation patents fair to a point, but submitted that many inventors could not afford the continuation fees, and that the same late fee structure as the standard patent of $100 per month was overly punishing. Danielle Andrewartha submitted that there is not a significant difference in cost between the innovation and standard patents, which is arguably inappropriate given the term of protection for the innovation patent is less than half of the standard patent. She suggested that one way of making the scheme more desirable and accessible to SMEs was to increase the quality and cost of standard patents while decreasing the cost of obtaining an innovation patent.

Roger Syn submitted that the one year grace period was particularly pertinent to users of the innovation patent:

> The Innovation Patent system is most used by local inventors, and smaller businesses. When I have my first interview with such clients, it is extremely common for these types of people to tell me that they have asked their friends and family about whether the idea is viable before deciding to embark on the patenting process. Often, they do not realise that this can sometimes amount to a prior disclosure of their invention.

AMPICTA said that the innovation patent does not suit its members because the innovation patent is published too soon to allow for further R&D, investigation and experimentation on the invention.

Divisional Applications and Conversion of Innovation Patent Applications

Under the petty patent system, prior to acceptance, it was possible to convert a petty patent application to a standard application and vice versa. This system was in place to provide flexibility to the applicant, as it was often difficult to decide whether a standard or petty patent was appropriate for their invention. However no conversion was possible after grant of either application. This limitation was provided as it was believed to be against the public's interest to allow a granted petty patent to be converted to a standard patent. For example investment may have been undertaken in anticipation that a petty patent is about to expire.[17]

---

[16] Government's response to the recommendations of the ACIP Report "Review of the Petty Patent System"
[17] ACIP Report 'Review of the Petty Patent System' published 1995

The petty patent system also allowed a petty patent to be filed as a divisional of a standard application. The main reason for this was to obtain quick protection for a particular commercial embodiment of the invention.

The innovation patent system retained these mechanisms to provide continuity with the petty patent system and to enhance the level of acceptance of the innovation patent system. However, as noted in the Australian Government's response, granting innovation patents within three months of filing limits the opportunity to convert an innovation patent application to a standard patent application.[18]

Submissions

No comments were received specifically on the issues of divisional applications and conversions.

Dual Protection

Dual protection by standard and innovation patents is not allowable under the Patents Act. Even though the ACIP Report recommended that dual protection be available, the Government disagreed as it was believed that this would be against the public's interest. For example allowing applicants to hold standard and innovation patent rights for the same invention would be a form of double-dipping because an innovation patent can have a wider scope than a standard patent, as its inventive threshold is lower. Therefore having simultaneous protection under both systems would allow applicants with inventions meeting the standard patent threshold to have a 20 year protection period that would be enhanced during the first 8 years by the innovation patent protecting a broader area. This would serve to limit the options for inventing around the invention and would provide a stronger form of protection than either individually. [19]

Even though applicants are unable to obtain a standard and innovation patent claiming exactly the same subject matter, applicants are still able to obtain a standard and innovation patent having claims with a similar or overlapping subject matter. Further, applicants are also able to file a divisional application for an innovation patent from a standard patent application. This is often done to obtain quick protection for a particular commercial embodiment of the invention, particularly if the standard patent application has been opposed.

Submissions

IPTA said that it was not aware of any issues with overlapping or similar patents. Danielle Andrewartha suggested that the innovation patent become more like a provisional application with applicants having 12 months from the date of filing to complete a standard patent application. If the standard patent is granted, it would subsume the innovation patent. This would enable applicants to define more closely the area of invention that he or she wishes ultimately to claim, while securing protection in the meantime.

---

[18] Government's response to the recommendations of the ACIP Report "Review of the Petty Patent System"
[19] Governments response to the recommendations of the ACIP Report "Review of the Petty Patent System"

Uncertified Innovation Patents

ACIP recommended that all innovation applications should be **published** after passing a formalities examination. The Australian Government agreed with the thrust of the recommendation but decided to **grant** the patent after passing the formalities examination. The Australian Government recognised that insisting on substantive examination would add significantly to the cost for applicants who may be unwilling or unable to bear this cost. These granted applications are classified as **uncertified innovation patents** and do not have any enforceable rights.

It was also recognised that not undertaking substantive examination would increase the uncertainty over whether an innovation patent was valid. Therefore substantive examination was made available on request at any time and would be required before initiating infringement action or threatening such action.[20] Innovation patents that have passed substantive examination are classified as **certified innovation patents** and carry with them enforceable rights.

IP Australia has observed that some uncertified innovation patents may lack sufficient disclosure or subject matter to form the basis of a valid patent. Further, the granting of uncertified patents may be providing an unrealistic expectation about the value of the patent. For example members of the public that do not understand the innovation patent system may believe that an uncertified innovation patent carries enforceable rights.

Submissions

Some serious concerns were raised over the granting of unexamined innovation patents. Tim Falkenhagen of Abrasion Resistant Materials Pty Ltd submitted that granted innovation patents confer unwarranted authority on the technology they describe and can be used for marketing purposes. He described a situation where an innovation patent was granted for the same invention as that in a standard patent application submitted by another party. The innovation patent was then used to obtain finance to develop the technology, the standard patent opposed for as long as possible to buy time, and then the innovation patent abandoned:

> ...From a marketing stand point, the scenario is thus created whereby someone can "gift" an expired innovation patent to others simply by abandoning it. While it is understood that if an item is made, used or sold according to a granted innovation patent (which is found to infringe a standard patent), that there are legal options available to resolve this, if it were administered differently (by IP Australia) at the application stage, then there would be no need to seek such an expensive course of action.

IPTA submitted that there was some anecdotal evidence of mischief making arising from that the lack of awareness in the market place that a granted innovation patent does not confer rights. However, a more substantial area of concern was that relating to the uncertainty of monopoly protection associated with the grant of an innovation patent:

> Under the current system the scope of the claims of the uncertified innovation patents gives no assistance in assessing the likely protection available under the patent following certification. Consequently third parties are obliged to fully search the entire disclosure of a granted innovation patent and formulate an opinion as to the

[20] Government's response to the recommendations of the ACIP Report "Review of the Petty Patent System"

> scope of any claims that might be properly based on that disclosure before they can decide whether there is an infringement risk presented by the patent.

IPTA noted that third parties have the option to precipitate certification, but submitted this had the following shortcomings:

> Firstly there is a significant time delay associated with the patent ultimately being certified and the final scope determined. More importantly the initiation of certification can result in the patentee being able to completely recast the focus of the patent provided there is sufficient basis. Thirdly the patentee has the option of filing a further divisional application so as to maintain the potential for protection with any claim that can be subsequently based on the original disclosure.
>
> These factors have in at least some circumstance presented difficulties for the competition in the market place by third parties due to the associated uncertainty.

Enforcement and Revocation of Innovation Patents

A third party may only challenge the validity of an innovation patent after the patent has been examined and certified. Therefore the innovation patent system provides for a third party to request the Commissioner of Patents (the Commissioner) to examine an uncertified innovation patent and give the Commissioner notice of matters affecting the validity of the innovation patent. This is the extent of involvement of the third party in examination. After certification, the third party may challenge the validity of the patent by either filing an opposition to the innovation patent seeking the Commissioner to revoke it, by applying to a prescribed court for revocation, or both.

If there are proceedings before both the Commissioner and the Courts, section 101P of the Patents Act provides that if relevant proceedings in relation to an innovation patent are pending, the Commissioner must not make a decision concerning revocation of the patent without the leave of the court.

Since the introduction of the innovation patent system only a handful of innovation patents have been challenged in the Federal Court. The issues raised in these cases involved infringement of existing innovation patents, revocation and the validity of inventions subject of a certified innovation patent. In a case where the innovation patent was found to be valid, the infringing parties were ordered to stop supplying, selling, distributing or using the equipment.[21]. In another case, an injunction provided that until the determination of the proceedings, the alleged infringer be restrained from selling, hiring or otherwise disposing of the device.[22] In a case where the innovation patent was found to be invalid, on the grounds of being disclosed by the prior art, the court ordered the patent be revoked[23]

The ACIP report on the Petty Patent system also suggested that there should be an avenue for enforcement of innovation patent rights at a level lower than that of the Federal and Supreme Courts, further recommending that a study be undertaken to determine how this objective could be achieved. The government agreed to undertake

[21] Datadot Technology Ltd v Alpha Microtech Pty Ltd [2003] FCA 962
[22] Masport Limited v Bartlem Pty Limited [2004] FCA 591
[23] Aus Fence Hire Pty Ltd v Thomas [2004] FCA 557

this study, with these issues being considered as part of the ACIP "Review of Enforcement of Industrial Property Rights", published March 1999[24] These matters have now been further considered in the ACIP report "Should the jurisdiction of the Federal Magistrates Service be extended to include patent, trade mark and design matters?", November 2003[25]. Among its recommendations, ACIP considered that the jurisdiction of the Federal Magistrates Service should be extended to include patent, trade mark and designs matters. The Government is currently considering its response to this report.

Submissions

Barokes Wines detailed how its innovation patent for delivering wine in a can was challenged by a large firm:

> As the foundation of the challenge is unsubstantiated, the can manufacturer successfully employed delaying tactics to avoid a conclusive decision from the Patent Office for (many) months. The tactics amount to legitimately exploiting avenues available in the patent process and seem contrary to the spirit of the law and legislation, which was intended to protect the 'little person', develop Australia as a clever country and ensure the earnings from Australian ingenuity remain in the country…
>
> The delaying campaign Barokes Wines has faced is known colloquially as 'deep pocketing'. That is, a large company uses the considerable shareholder funds available to it to exploit legal processes and tie up the limited financial resources and time available to smaller, innovative companies.
>
> The Barokes Wine example suggests that despite the intention of the legislation, small companies are prevented from using the patent system to effectively protect innovation because the process is too slow and too costly…
>
> The procedures set down in the legislation enable a third party to challenge or oppose the grant of the patent at any time during its eight year term. This means that a third party could oppose a patent and drag out the proceedings, making the proceedings more expensive and the ownership of the patent less valuable. If the Patent Office or the patentee tried to stop this delaying strategy, the third party could simply file a new challenge or opposition at the Patent Office. This would recommence proceedings….

To overcome this, Barokes Wine recommended that there be a window of six months from the certification of the innovation patent for a party to oppose or challenge the patent at the Patent Office. After this period, a third party would need to use the court system. This would mean that proceedings could not be unnecessarily dragged out and the innovation patent owner would be provided with greater certainty.

One IPTA member noted that, in an opposition process, the opponent has as much time as it cares to take to prepare its case without notifying the patentee, while the patentee must respond within three months. In complex cases involving the location and briefing of expert witnesses, this was thought to be a very short period of time before extensions may have to be justified.

---

[24] The ACIP report on the "Review of Enforcement of Industrial Property Rights" is available from http://www.ipaustralia.gov.au/pdfs/general/acip_report.pdf

[25] The ACIP report on "Should the jurisdiction of the Federal Magistrates Service be extended to include patent, trade mark and design matters?" is available from http://www.acip.gov.au/fms_submissions/finalreport.PDF

IPTA submitted that the few cases where innovation patents have been involved in enforcement or revocation proceedings do not appear to have encountered any particular difficulties. However, it believed there is scope for enforcement of innovation patent rights at a level lower than the Federal and Supreme courts, and endorses the ACIP recommendation regarding the Federal Magistrates Service.

Conclusion

Only a small number of submissions were made to this review. This may reflect the relatively small number of those who are users of or directly affected by the innovation patent system, the limited length of time it has been in operation, and/or that no fundamental problems have manifested.

Objectives

At this stage it appears that the objectives of the innovation patent are generally being met. The majority of users of the system are Australian individuals and SMEs whose applications relate to less knowledge-intensive inventions than those for standard patents.

Although it is difficult to objectively measure whether low-level innovation has been stimulated, the higher use of the innovation patent system than was the case for the petty patent suggests that it has to some degree. The low rate of certification (13% of all applications) suggests that optional examination is being used as intended, rather than a sign that the innovation patent system is failing to encourage meaningful innovation. However, there is preliminary evidence that around 7% of innovation patents are being used to obtain some form of quick protection for higher-level inventions while a standard patent is being pursued, rather than as the system was designed. This behaviour should be monitored and/or investigated more deeply to ensure it does not become a serious issue.

Recommendation 1
IP Australia should routinely assess the proportion of innovation patent applications that appear to be used for tactical reasons regarding higher-level inventions rather than as attempts to secure protection for lower-level inventions. This would help ensure that the system is mainly being used as intended.

The innovation patent system is generally speedier than the standard patent system and the fees set so that they are lower, although the cost difference is marginal for the 34% of cases in which an agent is employed. Also, where an invention is expected to satisfy the inventiveness threshold of the standard patent, and to have a life between four and eight years, the innovation patent system offers little cost advantage over the standard patent system. However, the innovation patent system was not designed as short term protection for higher-level inventions. All patent fees are currently being reviewed in accordance with Cost Recovery Principles.

Awareness

General awareness of the system appears to be reasonable. Innovation patent applicants typically have less experience in IP, and so some do not adequately

understand the decisions they make or the requirements of the system. Examples include the differences between innovation and provisional applications, the type and amount of information required in an application, and when requesting examination is appropriate to applicant needs. The development of a new provisional application form is one of the changes already made to address this, and more changes to the information available to applicants can form part of the general awareness-raising program planned for 2006-07.

Two significant problems of the system appear to be general uncertainty over the meaning of uncertified patents, and both applicants and third parties having inadequate knowledge of the system. The granting of unexamined innovation patents appears to result in a degree of misunderstanding and misuse of granted innovation patents. Such costs of the system were largely anticipated at the time of its introduction, but were considered to be outweighed by the benefits of reducing time and cost for the majority of applicants, who do not need to have their patent fully assessed. The examination rate of only 22% of applications supports this approach.

The problems caused by the granting of unexamined innovation patents could be addressed by changing to grant only after full examination, or changing the name of a granted innovation patent to something less indicative of exclusive rights having been awarded. Such changes would of course involve their own costs and confusions. At this stage such changes do not appear warranted, when improved education and awareness programs could be attempted first. This would involve the provision of better education for applicants, grantees and those dealing with the owners of granted and certified innovation patents, such as when providing finance or when accused of infringing behaviour. This could be done as part of the 2006-07 awareness-raising program.

Recommendation 2
IP Australia should ensure the information and forms available to applicants on the key elements of the innovation patent, including that which is provided during the application process, meet the needs of customers. Particular issues that need to be addressed are the differences between the innovation patent and the provisional application, early publication of innovation patents, the difference between grant and certification and the amount of detail required in an application in order to achieve certification.

Recommendation 3
IP Australia should provide clear and easily accessible information on its website and in its literature, targeted towards interested third parties rather than applicants, on the differences between granted and certified innovation patents and the options available for questioning the validity of a patent.

Recommendation 2 could complement similar measures currently being taken. In its response to ACIP' review of patenting of business systems, the Government agreed to IP Australia raising public awareness of the ability to submit relevant citations under Sections 27 and 28 of the *Patents Act 1990* as part of introducing more prominent and

comprehensive information relating to the interests of the general public, such as the options available to those who wish to question the validity of a patent[26].

Innovative step

Whether innovative step is a lower threshold than inventive step, and how effective it is, can ultimately only be determined by the courts. The latest opposition decisions indicate that innovative step is indeed a lower threshold, and is in line with the objectives of the system. However, recent worldwide concerns over a possible proliferation of "trivial" patents creating barriers to innovation mean that the appropriateness of the innovation patent must be regularly reassessed to ensure that it is does not become used to a significant extent as a purely tactical measure to obstruct competitors.

Term, claims & subject matter

At this stage there appears to be no reason to modify the eight year term, five claim limit or the subject matter covered. However, despite the clear intent of the innovation patent, there does appear to be a risk that a court would interpret the legislation to mean that the subject matter of an innovation patent would have to satisfy a threshold of inventiveness on the face of the specification that is higher than that of innovative step. This would undermine the system and significant modifications would be urgently required. It would be best to have the issue examined before such a situation eventuated.

Recommendation 4
IP Australia notes that the Advisory Council on Intellectual Property (ACIP) may be conducting a review of patentable subject matter in the near future. If so, ACIP should consider the inventiveness threshold for innovation patents as part of its review.

Application process

The application process appears appropriate, although timeliness must be maintained in order to meet the objectives of the system. The limited opportunity to convert an innovation patent to a standard patent does not appear to have caused many problems.

The open-ended nature of the opposition process has caused concern in one particular case, but it must be noted that the nature of any patent is that is can be challenged at any time during its term, such as through requests for revocation or court actions, both potentially repeatable. The lodgement of oppositions later in the term of an innovation patent can even be beneficial to the applicant, as it shifts costs from the early stages of an invention, when its worth is unknown, to when its value can be determined and informed decisions made. The three month timeframe for applicants to respond to the lodgement of an opposition appears to be appropriate, as it is important for oppositions to proceed as quickly as possible, and such time limits can be extended where necessary (and have been to date). Also, the need to locate and brief expert witnesses is expected to be significantly less when arguing innovative step than for inventive step.

[26] Recommendation 7.

Appendix 1 – Issues paper questions

IP Australia sought general comments on the innovation patent system from interested parties, and specifically asked the following questions:

1. How well has the innovation patent system achieved the Australian Government's objectives to provide a form of protection that is quick, easy to obtain and relatively inexpensive for lower level or incremental inventions that are not sufficiently inventive to qualify for standard patent protection?

2. Are the innovation patent system's objectives still relevant for Australian business and are they likely to remain so in the future?

3. To what extent has the innovation patent system allowed individuals and small to medium enterprises to develop inventions that are not sufficiently inventive to qualify for standard patent?

4. How effective and appropriate is the "innovative step" (Section 7(4) of the Patents Act) in meeting the requirements for a lower inventive threshold than that required for a standard patent?

5. How effective is the 8 year term in balancing the competing needs of the owners and the public?

6. How appropriate is the limitation to 5 claims in allowing applicants to define the scope of the invention?

7. What effects, if any, has the granting of uncertified patents for lower level inventions had on competition in the market place?

8. What has been your experience with the process involved in applying for and/or certifying an innovation patent?

9. How effective or appropriate are the enforcement and revocation provisions for innovation patents?

10. What effects, if any, have resulted from applicants having standard and innovation patents having claims with similar or overlapping subject matter?

11. How well is the innovation patent system understood, particularly by small to medium enterprises? For example is the difference between certified and uncertified innovation patents understood?

Appendix 2 – List of submissions

1. The Institute of Patent and Trade Mark Attorneys of Australia (IPTA)
2. Blake Dawson Waldron Patent Services
3. Amcor Research & Technology
4. The Australian Manufacturers' Patents, Industrial Designs, Copyright and Trade Mark Association (AMPICTA)
5. Roger Syn
6. Robert Hadaway
7. Danielle Andrewartha
8. Nadia Ordorico, Griffith Hack
9. Gary Stokes, Barokes Wines, submission 94 to House Standing Committee on Science and Innovation 'Inquiry into pathways to technological innovation'.
10. Tim Falkenhagen, Abrasion Resistant Materials