



**Australian Government**

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**IP Australia**

# **Review of Patent Grace Period**

**August 2005**

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## Executive Summary

The 12-month grace period for patents was introduced on 1 April 2002 as a *Backing Australia's Ability* initiative. The grace period protects patents from invalidation by publication of the invention made by, or with the consent of, the patent applicant or owner during the 12-month period prior to the filing date of the application. The grace period protection only applies in Australia. At the time of introduction, the Government committed to review the grace period two years later. IP Australia released a discussion paper and nine submissions were received in response. The review has now been completed

Given the limited period in which the grace period has been operating, and the lack of any judicial consideration of the provisions, it is too early to determine whether the grace period has had a positive or negative effect overall. However it is noted that the grace period has been used successfully in cases of inadvertent disclosure of inventions. It is too early as yet to assess its use in other circumstances. The absence of universal or harmonised grace periods, and particularly the lack of similar provisions in key markets for Australian innovators, precludes researchers from relying on the grace period.

As the purpose of introducing a grace period was to provide protection against 'inadvertent disclosure', the provisions are working and being used as intended. There is no imperative for changes to the grace period at present.

However, the review found a general lack of awareness and/or understanding of the grace period among researchers. The review provides support for recommendation 14-4 of the ALRC report *Genes and Ingenuity: Gene Patenting and Human Health* (ALRC 99) that research organisations should ensure that their researchers are fully informed about the operation of the grace period provisions in the Patents Regulations.

The report on the review of the grace period has concluded that no changes are necessary at this stage, but that IP Australia should continue to monitor international developments. IP Australia will also continue to ensure that there is adequate communication of the key messages regarding the grace period.

## Recommendations

1. No changes to the grace period provisions are required at this stage.
2. IP Australia ensures that communication of the grace period provisions is effectively targeted at the research sector.
3. IP Australia monitors judicial consideration of the grace period provisions.
4. IP Australia continues to monitor developments in Europe in relation to grace periods.

## Background

The 12-month grace period for patents was introduced on 1 April 2002 as part of the Government's *Backing Australia's Ability* innovation action plan. The grace period protects patents from invalidation by a publication of the invention made by, or with the consent of, the patent applicant or owner during the 12-month period prior to the filing date of the application. The protection given by the grace period only applies in Australia.

At the time of its introduction, the Government made commitments to review the grace period two years later.

The Australian Law Reform Commission (ALRC) report *Genes and Ingenuity: Gene Patenting and Human Health* (ALRC 99) was tabled in Parliament on 31 August 2004. The ALRC considered the grace period closely and recommended:

The responsible Minister should initiate a review of the grace period provisions in the *Patents Regulations 1991* (Cth) to examine:

- (a) whether they are well understood by the research community; and
- (b) how they have affected commercialisation of Australian research in Australia or overseas.

A further issue of relevance to the review is Article 17.9.9 of the Australia-United States Free Trade Agreement (AUSFTA). This clause requires both countries to provide for a grace period relating to publications that:

- were made or authorised by, or derived from, the patent applicant; and
- occurred within 12 months prior to the date of filing of the application.

Consequently, any changes made to the grace period provisions would need to be considered in light of Article 17.9.9 of the AUSFTA.

A discussion paper was prepared incorporating the issues the ALRC has raised and also alerting people to the limitations imposed by Article 17.9.9 of the AUSFTA. The discussion paper was posted on IP Australia's website and sent directly to key interest groups, including the patent attorney profession and the research sector, with a request for submissions. A number of submissions were received in response to the discussion paper.

## Issues

**Are there circumstances where an applicant has either been disadvantaged by the grace period provisions, or has benefited from the existence of the grace period?**

It was commonly noted in submissions that it was too early to determine whether the grace period has had a positive or negative effect overall, particularly in light of the absence of any judicial consideration of the provisions. However, a number of submissions reported instances where patent applicants have benefited from the existence of the grace period. This has invariably been

in circumstances where the grace period has been used as a fall-back or safety-net, where the decision to take advantage of the grace period has been retrospective.

There has been one Patent Office decision – *Stephen John Grant* [2004] APO 11 (26 May 2004); (2004) AIPC 91-994 – in which public information was disregarded on the basis of the grace period provisions under regulation 2.2(1A) of the *Patents Regulations 1991*.

Researchers tend to avoid deliberate use of the grace period for two main reasons:

- the grace period is not universal. Certain critical key markets, for example the European Community, do not have grace period provisions. While the grace period will provide some protection in Australia, publication before filing will mean that rights are lost in those key markets without grace period provisions.
- researchers submitted that they make use of the 12 month period between filing a provisional application and a complete application. As the grace period requires a complete application to be filed within 12 months of the disclosure, *“there is less time to arrange for due diligence and commercial opportunity assessments between the provisional and when subsequent filings are due.”* (Bio21 Australia Ltd).

One patent attorney firm stated that they were “aware of incidents where the inventors/applicants were adversely affected because they were not aware that the grace period does not apply internationally”. It is not clear how frequently such incidents have occurred, but no other users reported that they had been adversely affected due to deliberate use of the grace period.

One submission identified that an inventor may also be disadvantaged if they take advantage of the grace period, due to the prior user rights provided by section 119 of the *Patents Act 1990*. (Section 119 provides the necessary balance to allow third parties to continue doing what they were able to freely do before a patent application was filed.) A possible scenario is that a third party may begin to use the subject matter of the disclosure in a commercial manner before a patent application is filed. The third party would be free to continue that use due to the third party intervening rights created by section 119. While the potential for an inventor to be disadvantaged in this manner clearly exists, IP Australia is not aware of any actual instances of it occurring.

**Is the wording of the grace period provisions (paragraph 24(1)(a) of the Patents Act 1990 and subregulations 2.2(1A) and 2.3(1A) of the Patents Regulations 1991) sufficiently clear?**

A number of concerns were raised regarding the provisions, principally by the patent attorney profession.

### ***Validity of regulations***

Submissions were received pointing to a tension between section 24 and regulations 2.2(1A) and 2.3(1A). Under section 24 a decision maker must disregard any publication or use of the invention in the prescribed circumstances, but only if a patent application for the invention is made within the prescribed period. It was said that regulation 2.2(1A) purports to make all publication or use a prescribed circumstance if they occur within 12 months before filing a complete application. It was submitted that the words "in the prescribed circumstances" in section 24 have become redundant and this cannot have been the intention of parliament. There were also submissions that the breadth of sub-regulation 2.2(1A) appears to make sub-regulations 2.2(2), 2.2(3) and 2.2(4) redundant. A suggestion was made that the only way to achieve certainty is to introduce the grace period into the Act itself.

Sub-regulation 2.2(1A) is limited to the circumstances where the publication or use is *within 12 months before filing of the complete application*. This is a limitation on the words "in the prescribed circumstances" in section 24. While the prescribed period for filing a patent application (either provisional or complete) for the invention is within 12 months of the publication or use, in effect a complete application must be filed in that time otherwise the prescribed circumstances will not have been met.

The circumstances prescribed in sub-regulations 2.2(2), 2.2(3) and 2.2(4) do not require the publication or use to be within 12 months before the filing date of a *complete* application, which is a limitation on the circumstances in sub-regulation 2.2(1A). There does not appear to be any redundancy in these provisions.

Noting the absence of any judicial consideration of the provisions to date, there does not currently appear to be any sound basis for the concerns regarding the validity of the regulations. There appear to be no compelling reasons at this stage to move the provisions of regulation 2.2(1A) into the Act.

### ***Patents of addition***

The Institute of Patent and Trade Mark Attorneys Australia (IPTA) submitted that the grace period does not appear to assist in the case of a patent of addition. Section 25 and regulation 2.4 prescribe that a patent of addition will not be invalid on the basis of any publication or use of the main invention after the priority date of the main invention. If the main invention was filed using the grace period provisions then the opportunity to use the patent of addition provisions may not be available.

The exemption under section 25 is unlimited as to time, but limited to exemption for inventive step - not novelty. If publication of the main invention in an application gave rise to a novelty objection, it is hard to see any policy rationale for disregarding the parent application. The patentee has their patent rights protected by that application. Furthermore it does not seem congruous to

disregard the requirements of section 81(1)(b) as a consequence of the grace period mechanism.

### ***Double patenting***

However this does highlight a potential anomaly in the grace period provisions. A situation potentially could arise where an applicant files a complete application and that application is published. Subsequently, less than 12 months after publication they re-file reliant on the grace period. That is, the applicant can possibly in effect get a second patent for exactly the same subject matter with a filing date 12 months after publication of the earlier application. An argument could be made from this that publication by a patent office should be excluded from the grace period mechanism. But the AUSFTA appears to prevent such an exclusion.

### ***Secret use***

An issue was raised in a number of submissions regarding secret use of an invention. Under section 18 (1) (d) of the *Patents Act 1990*, an invention is not a patentable invention if it was secretly used in the patent area before the priority date. The issue raised was that there is an apparent anomaly in that secret use in the 12 months before a complete application was filed would lead to invalidity, whereas public use would be disregarded pursuant to section 24. It was said that in practice, "it can be very difficult to determine whether a particular use will result in information becoming publicly available and hence there is a lack of certainty for inventors/applicants that the grace period will apply."

Introduction of a grace period in Australia was recommended in the Intellectual Property and Competition Review Committee (IPCRC) report "*Review of intellectual property legislation under the Competition Principles Agreement*" in September 2000. The primary reason for introduction of a grace period given by the IPCRC was directed to problems faced by inventors that publish their invention after filing a provisional application. The ALRC also considered the grace period and reported that in addition to this reason, the potential benefits are said to include encouraging the sharing and publication of research results (although the lack of similar provisions in Europe meant these benefits were not achieved in practice).

Disregarding secret use of an invention prior to patent filing would not seem to be consistent with either the problems identified by the IPCRC or with the aims of encouraging publication or sharing of research results. If significant problems are arising due to the exclusion of secret use, it may warrant some further consideration. Other than difficulties in determining whether a use was secret or public, the extent and nature of any problems was not identified. But it should be noted that section 24 presently only provides exclusions to novelty and inventive or innovative step, and not to the other requirements for patentability set out in section 18. It is also noted that section 9 sets out certain acts that are not to be taken to be secret use. Extending the grace period provisions to include secret use could possibly be seen as a *de facto* extension of the patent term.

**Is the effect of the grace period well understood, particularly by the research community?**

Responses from patent attorneys indicated that, in their experience, the grace period provisions are not well understood by the research community. It appears from the submissions received from research institutions that Business Development managers of research institutes are aware of and understand the provisions, but that researchers themselves do not have the same level of awareness and understanding of the provisions. Research managers prefer to reinforce the message of "patent before publish" to their scientists rather than promoting the existence of a grace period. Managers of research institutions reported that they place low priority on promoting the grace period because it doesn't apply in all markets. The submissions by Prof Matthew Cuthbertson, CEO of CSSIP, were representative of several research managers:

*"The pressure-to-publish on academic researchers is so high that it is always a struggle to avoid unnecessary and novelty-destroying disclosures of new patentable inventions. The mantra of "get your provisional application in before you publish" is easy to communicate and well understood, and I prefer to manage everything on that basis."*

A number of responses indicated a concern that the differing provisions in different markets had potential to cause confusion. For example, ANSTO submitted:

*"As a principle, ANSTO believes it is important that the Australian IP regime is consistent with that of our key markets for innovations, namely Europe, the USA and Japan. At present this is not the case, and these international differences have real potential to confuse innovators and provide a false sense of security."*

The ALRC report also identified the difficulties arising because not all countries recognise grace periods. Although this potential for confusion was a common concern, there was little evidence of instances where deliberate use of the grace period had adversely affected commercialisation of foreign markets. It appeared from the submissions received that research institutes, or at least those that responded, carefully manage disclosure of inventions and only use the grace period as a last resort.

The ALRC report *Genes and Ingenuity: Gene Patenting and Human Health* stated:

*14.87 The review should cover the operation of the grace period in Australia since its inception. Given the terms of the AUSFTA, it is unlikely that the grace period will be revoked, and the review should therefore not focus on whether the grace period ought to be retained. Rather, the review should examine any adverse impacts of the grace period and ways to address them. In particular, the review should investigate awareness and understanding of the novelty provisions of the Patents Act by researchers to ascertain whether it is operating as intended.*

The ALRC recommended:

***Recommendation 14–4** Research organisations should ensure that their researchers are fully informed about the operation of the grace period provisions in the Patents Regulations, particularly in relation to:*

*(a) the effect of publication before filing a patent application; and*

*(b) the effect of publication on the patentability of their inventions in countries that do not have equivalent provisions.*

The responses received indicate that there is a varying degree of awareness of the grace period among researchers, but generally a poor understanding of what it means. Responses received to the issues paper suggest that there is considerable variation on whether institutes pass on information about the grace period to researchers. For example, the responses provided by BIO21 member institutions, (Bio21 Australia Ltd is a cluster of 15 academic members), indicates that while some institutions have provided seminars or otherwise explain the grace period to researchers, others do not advertise the grace period and prefer to focus the message on patenting before any publication. The findings provide support for recommendation 14-4 of the ALRC report. However, the regime that was put in place was deliberately a safety net regime. *i.e.* to protect against inadvertent publication, rather than forming part of deliberate strategy. In that sense, the feedback that suggests maintenance of 'file provisional before publishing' is to be applauded.

IP Australia also has a key role in communicating the operation of the grace period and the effect of publication before a patent application is filed. IP Australia provides information regarding the grace period on its website and has previously provided this information to subscribers to the website, as well as in newsletters directed to patent attorneys and international IP offices. Discussion of the grace period also forms part of the messages presented at tertiary seminars conducted by IP Australia. IP Australia should continue to ensure there is adequate communication of the key messages regarding the grace period. It is noted that the grace period has been identified as a future topic of IP Australia's relationship marketing campaign that goes to over 6000 academics in the R&D field.

**How has the grace period affected the commercialisation of Australian research in Australia and overseas? For example, has the grace period had any adverse or beneficial effects on the commercialisation of Australian research?**

At the time of introduction of the grace period into Australia (1 April 2002), grace periods already applied in 38 countries including the US, Japan and Canada. Europe does not currently provide a grace period.

It was generally regarded that it was too early to observe whether there has been an effect on commercialisation of Australian research in Australia and overseas.

However, there were specific instances reported where the grace period provisions in both Australia and the US have been used in circumstances where the usual practice of patenting before publishing was not followed. The grace period provisions were seen by research companies as at least potentially overcoming a real disadvantage where disclosure occurred before patent filing. Canon Information Systems Research Australia Pty Ltd (CISRA) submitted:

*“Most companies that invest large amounts of money in research will seek a return on that investment and in this respect CISRA is no different. In this connection, companies are reluctant to commercialise their research in jurisdictions where they have not been able to secure their intellectual property rights. The grace period does not determine whether or not a company will choose to productise the research but plays an important role in whether or not a company can protect all the features that would be productised.*

*Marketing and sales companies are eager to disclose novel and inventive features in commercial products and attempts to maintain a competitive edge on the market. This is often at odds with the need to protect the investment in the research where time is required to carefully analyse what features can and should be protected. The grace period provides a buffer between the drive to commercialise and the need to protect the fruits of the research investments.*

Because of international differences in grace period provisions, researchers do not rely routinely on the grace period. The absence of general grace period provisions in Europe was commonly cited in submissions. In practice, the grace period provides a limited reprieve to researchers in the event of a system failure, but markets critical to researchers for commercialisation of their research may still be lost by untimely disclosure. The grace period was seen to have provided benefit as a safety net in particular instances.

The IPCRC noted that, ideally, Australia’s move to implement a grace period would coincide with a similar move in Europe. Because it appeared Europe would take some time to implement a grace period, the IPCRC considered that Australia should proceed first. Since the introduction of a grace period in Australia, there seems to have been little progress on the implementation of a grace period in Europe. The grace period also forms part of the patent law harmonization talks being considered by the Standing Committee on the Laws of Patents (SCP). It appears that following the SCP meeting of 1-2 June 2005, the patent law harmonization talks have stalled. But developed countries are continuing to review the issue.

While there is currently no imperative to change the grace period provisions in Australia, IP Australia should continue to monitor international developments regarding grace periods. Australia should also continue to encourage and influence the introduction and harmonisation of grace periods on an

international level wherever possible, for example through bilateral agreements and through World Intellectual Property Organisation (WIPO) committees.

## Conclusions

The Australia-United States Free Trade Agreement requires both countries to provide for a grace period relating to publications that were made or authorised by, or derived from, the patent applicant, and occurred within 12 months prior to the date of filing of the application. Consequently, any changes made to the grace period provisions would need to be considered in light of Article 17.9.9 of the AUSFTA.

Given the limited period in which the grace period has been operating, and the lack of any judicial consideration of the provisions, it is too early to determine whether the grace period has had a positive or negative effect overall. However it is noted that:

- the grace period has been used successfully in cases of inadvertent disclosure of inventions; and
- it is too early as yet to assess its use in other circumstances. The absence of universal grace periods, and particularly the lack of similar provisions in key markets for Australian innovators, precludes researchers from relying on the grace period.

There is no imperative for changes to the grace period at present. As expected, the grace period has been used as a fall back position in cases of inadvertent disclosure. As the purpose of introducing a grace period was to provide protection against 'inadvertent disclosure', the provisions appear to be working and being used as intended.

However, there does appear to be a general lack of awareness and/or understanding of the grace period among researchers. The findings provide support for recommendation 14-4 of the ALRC report *Genes and Ingenuity: Gene Patenting and Human Health* that research organisations should ensure that their researchers are fully informed about the operation of the grace period provisions in the Patents Regulations. IP Australia should also continue to ensure there is adequate communication of the key messages regarding the grace period.

IP Australia should continue to monitor and influence international developments and wait until international harmonisation of grace periods (or at least further adoption in critical key markets) occurs before making any changes.