INTRODUCTION OF THE INNOVATION PATENT:

THE

GOVERNMENT RESPONSE

TO THE

RECOMMENDATIONS OF THE

ADVISORY COUNCIL ON INDUSTRIAL PROPERTY (ACIP) REPORT

REVIEW OF THE PETTY PATENT SYSTEM
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GOVERNMENT RESPONSE TO THE RECOMMENDATIONS OF THE ADVISORY COUNCIL ON INDUSTRIAL PROPERTY REPORT

REVIEW OF THE PETTY PATENT SYSTEM

The government introduced the petty patent system in 1979. It was intended to assist Australian small businesses by providing an industrial property right that was relatively inexpensive, quick, easy to obtain and suited inventions having a short commercial life. The system has had limited success in meeting its intended objectives. Although the main users of the petty patent system are Australian individuals and SMEs, the number of applications made for petty patents has remained small. In 1994 there were only 389 applications for petty patents compared with 7331 provisional applications, 6878 complete applications for a standard patent and 21576 international applications designating Australia.

Through a wide consultation process the Advisory Council on Industrial Property (ACIP) identified a demand for industrial property rights for those incremental or lower level inventions that would not be sufficiently inventive to qualify for standard patent protection. Petty patents were not meeting this need because they have an inventive threshold similar to that of a standard patent. In effect, ACIP concluded that there was a gap in Australia's industrial property system because the petty patent was not doing the job for which it was intended. ACIP concluded that Australia would benefit from adopting a second tier patent system to provide cheap, fast, limited rights for lower level or incremental inventions, particularly as Australian SMEs would be the main users of the system. The Council proposed that the government implement a new innovation patent system by modifying the existing petty patent system. In proposing a new system the Council was aware of the need to balance the promotion of innovation by providing limited industrial property rights to the individual inventor against the rights of the public to access and use new technologies and information about them.

The Government agrees with ACIP that a patent system for lower level inventions is in Australia’s national interest. Overseas experience suggests that, in contrast to the predominantly foreign use of standard patent systems, locally owned SMEs are the major users of lower level patent systems. By providing an exclusive right for lower level inventions, the innovation patent should encourage Australian businesses, particularly SMEs, to develop their incremental inventions and market them in Australia. Increased use of the system will also increase the amount of technological information available to businesses, as the invention covered by each application is published. Moreover, modifying the petty patent system so that SMEs find it cheaper and easier to use should not add to the regulatory burden on third parties above what is already imposed by the present patent system, including the petty patent system that it will replace. Indeed, the proposed changes will decrease the compliance burden on the direct users of the system. The Government notes that at least 48 other industrialised countries including Germany and Japan have already introduced such second tier systems over recent years and that these overseas systems provide better access to industrial property rights for local industry and help to foster indigenous invention and innovative activities.
Recommendation 1

Australia should adopt a second tier patent protection system to be achieved by modifying the current petty patent system. (4.6)

This new system should be known as the Innovation Patent system.

Comment:

- The Government agrees that Australia should adopt a second tier patent system for lower level inventions and will implement this by modifying the current petty patent system.

The innovation patent system will provide Australian inventors with a means of protecting their lower level or incremental inventions. The Advisory Council on Industrial Property (ACIP) review demonstrated a clear need for such a system. In responding to this recommendation, the Government notes that many other countries have introduced such systems over recent years. The Government believes that a patent system for lower level inventions is in the interests of Australia’s small and medium business enterprises. The innovation patent system should help these firms obtain quick, relatively cheap rights for incremental inventions that could not be protected under either the petty or standard patent system.

- The Government agrees that the new system should be known as the innovation patent system.

The innovation patent system will bring new advantages to business. It needs a name that projects a forward looking and positive image. Retaining the 'petty patent' name would be counter productive as this might imply that little or nothing had changed. Similarly, using the term 'utility model' could be misleading, as this term generally refers to mechanical or electrical inventions and excludes process and chemical/biochemical inventions. The term 'innovation' could apply equally to inventions protectable under the standard patent system. However, the market for standard patents is already well developed and the sophisticated users of the standard patent system are unlikely to be confused by the term 'innovation patent' for the second tier system, or to assume that it implies standard patents are not innovative.

Recommendation 2

The inventive level for innovation patents should be lower than that for standard patents. (5.1)

The test for this inventive level should be a modified form of the expanded novelty test set out in Griffin v Isaacs (1938) 12 ALJ 169. The test would be worded something along the lines of:

An innovation patent should not be granted if the innovation is not novel;

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 to be novel

Comment:
The Government agrees that the inventive level for *innovation patents* should be lower than that for standard patents.

The Government believes there is a need for a system that provides rights for lower level inventions and that Australian small to medium sized businesses will benefit from the introduction of such a system. This form of industrial property right does not currently exist in Australia as the petty patent has the same inventive height requirement as the standard patent. Establishing the *innovation patent* with an inventive height level lower than for a standard patent will have no effect on the inventive height level requirement for the standard patent system.

- The Government agrees that the test for this lower inventive level should, in principle, be a modified form of the novelty test set out in Griffin v Isaacs (1938) 12 ALJ 169 and that the wording of this test be encapsulated in the legislation for the *innovation patent*.

The Government is aware that a previous attempt to introduce a second tier patent protection system fell short of expectations. The 1984 report, *Patents, Innovation and Competition in Australia*, by the Industrial Property Advisory Committee (IPAC), recommended a two tier patent system. IPAC believed there should be a distinction between the level of invention required for standard and petty patents. Although the then Government accepted IPAC’s recommendations supporting this intention, the resulting legislation failed to reflect the intention in an effective manner.

The Government therefore sees merit in enshrining the wording of the inventive height test in the legislation. This will make clear from the outset that an *innovation patent* provides protection for ‘lower level’ inventions. Including appropriate and specific wording to define the test will clarify the intention and minimise potential problems arising with subsequent legal interpretations. To further allay any possible confusion, the Government will ensure that the Explanatory Memorandum to the *innovation patent* legislation will specify that the proposed change to the level of inventive height applies only to the *innovation patent* and does not impact on the law relating to inventive step with respect to standard patents.

**Recommendation 3**

- The existing rules for determining the scope and interpretation of standard patent claims should apply for the *innovation patent*. *(5.2.1)*  
  Accepted

- The allowable breadth of the protection should be governed by the existing rules. *(5.2.2)*  
  Accepted

**Comment:**

- The Government agrees that the existing rules for determining the scope and interpretation of standard patent claims should apply to the *innovation patent*.

The Government is of the view that there is no reason to make changes to the existing rules for determining the scope and interpretation of standard patent claims. The existing rules are well known, work well and there is no reason to change them.

- The Government agrees that the allowable breadth of the protection should be governed by the existing rules.

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The Government believes retaining the existing rules for determining the allowable breadth of protection will maintain a sensible uniformity with the standard patent system and should be less confusing for users of the system.

**Recommendation 4**

The term of the innovation patent should be 8 years. (5.2.2)  
Accepted

The innovation patent should follow the existing standard patent requirement of annual continuation/renewal fees following the third anniversary of filing. (5.2.2)  
Accepted

**Comment:**

- The Government agrees that the term of the innovation patent should be 8 years.

Providing exclusive rights to an inventor is at a cost to the rights of the general public, in that it prevents them using the ideas embodied in the product or process without the permission of the owner of the patent. The Government is conscious that it needs to ensure a level of equity between the owner and the public. This means that the level of advantage to the inventor must be in balance with the level of contribution the invention makes to the market place. A lower contribution should attract lesser benefits for the owner, just as a higher contribution should attract higher benefits.

As the level of invention required for an innovation patent will be lower than for a standard patent, the term of protection should be less. Some compromise is necessary 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 reap the commercial rewards of the invention. The Government believes that to achieve this balance the most appropriate term for an innovation patent is eight years. The term of an innovation patent will apply from the date of filing the application, not from the time of grant.

- The Government agrees that the innovation patent should follow the existing standard patent requirement of annual continuation/renewal fees following the third anniversary of filing.

The Government notes that if the innovation patent system is to assist Australian small and medium businesses, the cost of entry to the system must be set at a relatively low level compared to a standard patent. The purpose of introducing continuation/renewal fees at the third anniversary of filing is twofold. It will help provide sufficient time for the inventor to develop and market the invention before a renewal fee becomes payable. It will also help ensure that only those innovation patents having real commercial value stay in force. The annual renewal fee will increase progressively over the life of the patent to encourage patent owners to release their inventions into the public domain at the earliest possible time. This rationale is consistent with the concept that the greater the time the patent is in effect, the greater the likely returns to the inventor and the greater the ability of the patentee to pay. If the invention is not providing a return, the patentee can make a commercial decision to abandon the project.

**Recommendation 5**

The maximum number of claims allowable should be five. (5.2.3)  
Accepted
There should be no restriction on the type of claim. (5.2.3)  
Accepted

Comment:

- The Government agrees that the maximum number of claims allowable should be five and that there should be no restriction on the type of claim.

An innovation patent will protect inventions demonstrating simpler advances and having a lower inventive height than the inventions covered by standard patents. Consequently, a large number of claims will be unwarranted and would run counter to the objective of keeping the system simple. This represents a change from the present petty patent system which only permits up to three claims in dependant form. Increasing the number of permitted claims to five will give applicants more flexibility, will lessen the restriction on the drafter and should make it easier and cheaper to prepare a specification.

Recommendation 6

The prior art base should be the same as that for a standard patent. (5.3)  
Accepted

Comment:

- The Government agrees that the prior art base (that is, the published information used to determine whether or not an invention is new or sufficiently inventive) should be the same as that used for a standard patent.

The present petty patent system uses a domestic prior art base as a means of differentiating it from a standard patent. However, with modern communications, information published in the major industrialised countries is available in Australia shortly after its first appearance anywhere. Moreover, advances in modern communications mean that information is becoming increasingly accessible, no matter where it was originally published. The Government believes Australia is best served by using a prior art base of information published anywhere in the world. This is consistent with the trend already established in second tier patent systems in many other countries.

Although it is relatively easy to access information, it is not so easy for Australian firms to establish whether the prior use of an invention has occurred overseas. For this reason, consideration of prior use is to be restricted to Australia.

Recommendation 7

Formality examination be undertaken on all innovation patent applications lodged.  
Accepted

Substantive examination of innovation patents to occur only on request by either the applicant or a third party. (5.4.1)  
Accepted

Examination may be requested at any time, but not later than 3 years after the application was filed. (5.4.1)  
Accepted in part

Comment:

- The Government agrees with the thrust of this recommendation but will go further than ACIP has suggested by granting innovation patents after formality examination that is after a simple check to ensure the application is in order. Either the applicant or a third party may
then at any time request a substantive examination in which the invention is compared with previously published documents to check that it is new and sufficiently inventive.

ACIP’s recommendation would allow a low cost entry into the system and enable the applicant to postpone for up to three years the substantive examination. However, ACIP’s proposal would not give applicants a quickly granted patent unless they initiated substantive examination soon after filing. Substantive examination would involve a cost that would be at least as high as the charge for the same service for a standard patent. There would be little cost advantage for the applicant in opting for an innovation patent if the applicant has to request substantive examination before AIPO could grant an innovation patent.

Under the ACIP proposals, the applicant would bear the full cost of a substantive examination unless a third party initiated it. In this case the third party would bear half the costs, with the applicant paying half. This was intended to help prevent vexatious third party actions. Recognising the cost and the time involved, most countries do not carry out a substantive examination of applications for second tier patent protection. This speeds up the grant process, keeps costs down for the applicant and appears to work well.

The Government recognises that substantive examination provides a greater degree of certainty that the patent is valid. This certainty is important in the event of litigation. Without substantive examination courts may be less likely to grant interlocutory injunction in the event of infringement. However, only a small proportion of granted patents becomes the subject of court actions. Insisting on substantive examination would add significantly to the ultimate cost for applicants who may be unwilling or unable to bear this cost, given the low probability of them being involved in litigation. Another issue is that without substantive examination it is possible that patents might be granted that should not be, because they would infringe already existing patents. In most cases this will be resolved cheaply and easily by seeking substantive examination when the possibility of infringement is first identified.

To give applicants a fast and cheaper alternative, the Government has decided that innovation patents will be granted after the formality examination. This is the normal process in most overseas countries having second tier patent protection systems.

Applicants will be granted an innovation patent after AIPO has completed the formality examination of their application and the applicants have paid the appropriate fees. A grant under these conditions will provide the patentee with a right that is quick and cheap to obtain, is reasonably simple, and lasts for a sufficient time to encourage investment in developing and marketing the innovation. This will help small firms make better and more effective use of Australia’s industrial property system.

Because substantive examination infers a degree of certainty, the Government recognises that there should be some limitations on the ways in which an innovation patent granted only on a formality basis may be used. For this reason the owners of innovation patents will be precluded from initiating infringement action or threatening such action until such time as a substantive examination has been completed. The patentee or a third party may request substantive examination at any time after the grant of the innovation patent.

**Recommendation 8**

**Publication of innovation patent applications should occur three months after filing.**

Accepted in part
If an application is examined and proceeds to grant after the initial publication has occurred then the patent document will be republished. (5.4.2)  

Comment:

- The Government agrees that innovation patent applications should be published as soon as AIPO has completed the formality examination. This will occur as soon as possible and not later than three months after filing.

Early publication keeps 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.

- The Government agrees that if an innovation patent is substantively examined and changes are made as a result of the examination, the patent document will be republished. If no changes are made, AIPO will publish a notification that examination has taken place, together with the search results.

Recommendation 9

The same subject matter protectable under a standard patent should be protectable under the innovation patent. (5.5)  

Comment:

- The Government agrees that the same subject matter protectable under a standard patent should be protectable under the innovation patent.

Most applications for innovation patents are likely to be made for simple tools, utensils, machinery or equipment. The innovation patent is unlikely to be widely used in areas such as pharmaceuticals and veterinary products where regulatory requirements may result in delays in the development and marketing of the innovation. There appears to be no compelling reason to exclude any technology or subject matter which is currently patentable under the standard patent system. Moreover, limiting the type or extent of technology coverage might preclude the innovation patent system from covering new and emerging technologies.
Recommendation 10

The option of an innovation patent deriving its priority from a provisional application should be allowed. (5.6)  

The possibility of filing an innovation patent as a divisional application of a standard patent and vice versa should be allowed. (5.6)  

The possibility to convert an innovation patent application to a standard patent application and vice versa should be allowed. Once granted, an innovation patent cannot be converted to a standard patent. (5.6)  

Comment:

- The Government agrees with this recommendation.

The Government believes there is value in retaining the current arrangements for priority, convertibility and divisionals as they work well and businesses believe they are useful. Retaining these mechanisms will provide continuity with the previous system and should enhance the level of acceptance of the new system. However, granting innovation patents within three months of filing will limit the opportunity to convert an innovation patent application to a standard patent application.

Recommendation 11

Dual protection by standard and innovation patents should be possible. It should be a requirement to cross reference applications/patents where the same applicant/patentee holds or attempts to obtain patent rights for the same subject matter. (5.7)  

Comment:

- The Government does not agree that dual protection by standard and innovation patents should be possible. The standard patent and the innovation patent differ only in their inventive threshold. The government sees no reason for the same invention to be granted rights under both systems.

The Government believes that allowing applicants to hold standard and innovation patent rights for the same invention would be a form of double-dipping that would not be in the national interest. This is because an innovation patent can have a wider scope than a standard patent, as its inventive threshold is lower. Having simultaneous protection under both systems would allow firms 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. I believe that this is against the national interest, especially as such dual protection is likely to be sought mainly by large foreign companies.
Recommendation 12

The name Innovation Patent be applied to the new second tier patent protection right. (5.8)

Comment:

- The Government agrees that the name innovation patent be applied to the new second tier patent protection right.

See response to Recommendation 1.

Recommendation 13

The Commissioner of Patents be given the power to revoke an innovation patent at any time and on any grounds upon which the grant of a patent could have been denied (5.9.1)

- An appeal should be available to the Federal Court.

The problem of providing an avenue for enforcement of innovation patent rights at a level lower than that of the Federal Court and the Supreme Courts be acknowledged as requiring serious and urgent attention. (5.9.1)

A study be made of ways in which this objective might be achieved, at least in the context of the innovation patent system. (5.9.1)

Comment:

- The Government agrees that the Commissioner of Patents be given the power to revoke an innovation patent at any time and on any grounds upon which the grant of a patent could have been denied. The Government also agrees that an appeal to the Federal Court should be available on the Commissioner's decision.

The first point of this recommendation extends to the innovation patent a provision which is currently in place for the standard and petty patent systems.

- The Government agrees that the issue of whether an avenue for enforcement of innovation patent rights should be provided at a level lower than that of the Federal Court and the Supreme Courts requires serious and urgent attention.

- The Government agrees that a study should be made of ways in which this objective might be achieved, at least in the context of the innovation patent system. In this context the Government has asked ACIP to examine issues relating to examine issues relating to the enforcement of industrial property rights.
Industrial property is a highly specialised area of law involving complex questions of definition, ownership and exploitation, with disputes sometimes encompassing different areas of law. The cost and complexity of enforcing industrial property rights are problems for many users of the system. Although these problems are not confined to the existing patent systems, they are particularly pertinent in the context of a system designed to protect lower level innovations and which aims to assist individuals and small to medium sized business enterprises.

There are clear indications that for the innovation patent system to be attractive to users it must encompass provisions for a less costly and more timely means for enforcing innovation patent rights. However, because the channels for enforcement of innovation patent rights form part of the existing adversarial system there are inherent difficulties in proposing discrete and workable solutions. There are added difficulties in that different systems operate within State jurisdictions. Although this is a difficult issue it is one that ACIP would be well placed to examine. The Minister for Science and Technology has accordingly referred the issue of enforcement of industrial property rights to ACIP for their consideration.

The Government believes that, given the inherent problems with the adversarial system and the difficulty in separating the enforcement procedures for the innovation patent, ACIP may find it worthwhile to examine the problems and look for solutions from a preventive perspective. That is, to examine strategies that Australian businesses might employ to avoid, or at least minimise, the likelihood of attracting infringement actions or the need for them to instigate legal actions. The Council might also wish to explore solutions that are based on low cost non-judicial alternatives.

The issue of enforcement may also be examined further in a proposed major review of intellectual property scheduled for 1998-99.

Recommendation 14

An awareness education program be undertaken to inform potential users of how the new system works, and how it differs from the existing petty patent and standard patent systems. Accepted

This should be accomplished by a cooperative program between the Australian Industrial Property Organisation, industry and the Institute of Patent Attorneys of Australia. (5.10.2) Accepted

Comment:

- The Government agrees that an awareness education program should be undertaken to inform potential users of how the new system works, and how it differs from the petty patent it will replace and the standard patent system.

By its nature the industrial property system is complex. Significant changes to the system need to be properly explained and marketed to potential users and practitioners. The success and acceptance of the innovation patent system will depend to a large extent on how well this is achieved. Because the innovation patent replaces the existing petty patent there is not only a need to explain how the new system will work but also in what ways it differs from the petty patent and standard patent systems.
The Government agrees in principle that the awareness and education program should be accomplished by a cooperative program between the Australian Industrial Property Organisation, industry and the Institute of Patent Attorneys of Australia.

The Government considers that the Australian Industrial Property Organisation, business and industry organisations and the Institute of Patent Attorneys of Australia would be the most appropriate bodies to form an alliance to promote and undertake an awareness education program of the new system. The Government has asked ACIP to provide advice and support to AIPO on this matter.

**Recommendation 15**

An evaluation be undertaken of the new system within 5 years of the implementation of the relevant legislation to assess how well it has met its objectives. (5.10.3)

**Comment:**

- The Government agrees that an evaluation of the new system should be carried out within 5 years of the relevant legislation being implemented, to assess how well it has met its objectives.

The evaluation will encompass consultations with users of the system, particularly Australian small and medium businesses. The review process is an important aspect of any system and it will provide valuable feedback on the effectiveness, or otherwise, of the new *innovation patent* system particularly in relation to whether it meets its key objectives. The timing of the review should fit within the Government’s portfolio legislative review process which includes a major review of intellectual property legislation in 1998-99.