

**AUSTRALIAN GOVERNMENT
IP AUSTRALIA**

**CONSULTATION PAPER:
ACIP'S RECOMMENDATION ON THE
INNOVATION PATENT SYSTEM**

SUBMISSION

Dr Dimitrios G. Eliades*
Barrister
The Room
1/82 Vulture Street
West End, Brisbane Qld 4000
Tel: +61 7 3846 3846
Mob: 0414 304446

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* www.deliades.com.au

Summary

1. The current consideration for the abolition of the innovation patent system, and the information upon which it relies, suffers, in the opinion of the author, from a flawed methodology. In considering the value of innovation patents to SMEs and to Australia, conclusions have been drawn based on usage statistics without even considering the possibility that those statistics are not pure, in particular that usage is directly affected by the uncertainty associated with enforcement, specifically with costs.
2. The Economic Impact of Innovation Patents Research¹ commissioned by IP Australia (“Paper 05”), suffers from the same criticism.
3. In 1995, the report of the Advisory Council on Industrial Property (ACIP)² recommended the abolition of the petty patent system and the introduction of the innovation patent system, in order to assist SMEs and inventors in obtaining ‘fast, limited monopoly protection for lower level or incremental inventions’, such inventions not meeting the criteria of standard patents or petty patents at the time.
4. Respectfully, Paper 05 is flawed in that it does not consider or evaluate the impact upon the results from which it has drawn its conclusions, of the fact that whilst entry into the innovation patent system is designed to be cheaper and faster, enforcement of an innovation patent is as expensive as the enforcement of a standard patent.
5. Such a factor undermines the conclusion based upon the statistics of the number of SMEs who apply for innovation patents, those who certify them and those who do not renew them.
6. The author, mindful of the constitutional basis upon which the Government rejected the establishment of a Tribunal to relieve post grant enforcement difficulties,³ proposed a model utilising the existing Court structures through the adoption of a practice of appointing three (3) members of IP Australia as Court experts to advise on the validity of patents, standard or innovation patents.⁴
7. However, more recently, the author has had the benefit of reading the U.K. report entitled “Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010 to 2013 issued 22 June 2015” (the “UK IPEC Evaluation”).
8. Reforms introduced in the U.K. in the period 2010 to 2013 to the Patents County Court (PCC), now the Intellectual Property Enterprise Court (IPEC), included a cap on recoverable costs, a cap on damages and active case management.
9. The author considers that cost capping for the enforcement of innovation patents would give SMEs incentive to use the system, which presently cannot give any assurances as to the legal costs which will be incurred to enforce their innovation patent rights.

¹ Published September 2014.

² <http://www.acip.gov.au/> under “Reviews” and “Completed reviews” .

³ “Post-Grant Patent Enforcement Strategies” ACIP Final Report January 2010. The Government response is also available at <http://www.acip.gov.au/reviews/government-review-postgrant/> .

⁴ Published in two part June and September 2013, LESANZ publication Les Nouvelle.

10. In the opinion of the author, a cost predictable enforcement path, coupled with the May 2014 ACIP recommendations, would, when evaluated, result in a more accurate assessment of the use and value to SMEs (and Australia) of the utility model.
11. The author further recommends the adoption of a damages limit in the case of innovation patents.
12. Reflective of the simpler system it was intended to be, the author recommends the appointment of intellectual property legal specialists to the Federal Circuit Court to hear the copyright, trade mark and design matters now within the Court's jurisdiction and to extend to that court, jurisdiction to hear infringement and revocation claims involving innovation patents.
13. The appropriate amendments to the legislation, court rules and practice directions are set out in the recommendations in this submission.
14. The submission recommends the ACIP recommendations in their Final Report in May 2014 be adopted and that their recommendation in that report as to its inability to make a recommendation on the abolition of the system together with the recommendation made in the statement issued May 2015 not be adopted.
15. Evaluation after three years from the date the last of any recommended changes are commenced, would be recommended.

Historical Overview

ACIP review of the petty patent system

16. In 1994, the Government decided to review the petty patent system, which had been introduced in July 1979. This decision was a response to the recommendations in a report to the Prime Minister's Science and Engineering Council (PMSEC), *The Role of Intellectual Property in Innovation* (the PMSEC report).
17. The PMSEC report recommended a 10 year term for petty patents and differentiation of the obviousness standard required for obtaining a petty patent compared with a standard patent.⁵
18. On 12 July 1994, the Minister for Small Business, Customs and Construction, Senator the Hon Chris Schacht, referred the petty patent system to ACIP for inquiry and report. The terms of reference required ACIP to have regard to:
 - a. the role of petty patents in Australia's industrial property system and their contribution to economic and technological development in Australia; and
 - b. the effectiveness and efficiency of a petty patent system in meeting its objectives with particular regard to small and medium business enterprises.

⁵ ACIP, "Review of the Petty Patents System", October 1995 at p 11 (the "ACIP Petty Patent review").

19. This was ACIP's first major report and the first review of the petty patent system since its introduction in 1979. ACIP recommended a new second tier patent system with significant differences from the petty patent system.⁶
20. ACIP identified the following benefits in a lower level utility system:
 - a. It filled the gap between designs and standard patents.
 - b. Was quick to obtain.
 - c. Was cheap to obtain *and enforce* (Emphasis added).
 - d. Was reasonably simple.
 - e. It helped small/medium enterprises.
 - f. Had a measure of certainty.
 - g. Lasted for a sufficient time to allow commercialisation.
21. It was a factor in ACIP's recommendation, that in adopting the new model innovation patent system, Australia would be "in keeping with world trends" as over 40 countries had adopted a second tier utility system with more countries in the "process of introducing such a system."⁷
22. The features of the innovation patent system which we have come to know are set out in the ACIP Executive Summary⁸ and considered individually in the report.
23. Critically, the report advised that a major problem raised in the consultation process was the problem of providing a lower level tribunal for the enforcement of industrial property rights "at a cost commensurate with the likely value of the rights involved."⁹
24. ACIP conceded that it was unable to provide a solution, particularly one which enabled the resources of the Patent Office to be utilised. However ACIP did recommend that the Commissioner be given the power to revoke patents and that an

⁶ ACIP Petty Patents review at p 5.

⁷ ACIP Petty Patents review at pages 5/6.

⁸ Ibid.

⁹ ACIP Petty Patents review p 6.

avenue for the enforcement of innovation patent rights at a lower level than the Federal and State Supreme Courts was considered as a matter requiring “serious and urgent attention”.¹⁰

25. Relevant to the question under consideration presently by IP Australia, are the perceptions of the then user groups in the ACIP consultation process:

“We recognise that there is a strong perception among user groups that the present enforcement procedures are lengthy, complex and expensive. As the petty patent system¹¹ is designed particularly for smaller innovators an important element if it is to be effective, will be a less complex and less expensive enforcement process.”¹²

26. ACIP considered at that time, that an attractive forum for innovation patent holders might be a Federal Magistracy, if it were established and specialist magistrates appointed.

27. Alternatively, ACIP considered that cost penalties might be introduced to encourage innovation patent litigants to use State Courts within their jurisdictional levels. ACIP acknowledged that the difficulty with this approach was the fact that the State courts lacked the experience in patent cases with a likely result being workload delays and higher cost litigation.¹³

28. Relevantly, ACIP had considered but rejected the following proposals:

- a. In cases where there was a cross claim for revocation in response to an infringement action (which the author considers happens as a matter of fact in by far the majority of cases), the Patent Office would determine validity leaving the Court to determine infringement.

ACIP rejected this proposal on the basis that issues of validity and infringement were interdependent. Specifically, ACIP considered that:

“Matters of expert evidence and the construction of both the specification and claims and prior art documents are interrelated.”¹⁴

¹⁰ ACIP Petty Patents review p8; Recommendation 13 at [5.9.1.]

¹¹ Possibly intended as a reference to the innovation patent system.

¹² ACIP Petty Patents review at p 56.

¹³ Ibid.

¹⁴ ACIP Petty Patents review p58.

- b. As a preliminary issue to the commencement of infringement proceedings or at least at a very early stage of the proceeding, the Patent Office gives a non binding ‘advisory opinion’ on the issue of infringement. ACIP considered this proposal had appeal but ultimately considered that it was not a “low cost umpire’s decision”. In this regard, ACIP considered that the position of the Law Council on this issue had merit. The Law Council considered that unless the opinion was binding on the parties, it had the effect of adding another step in the process without achieving a final resolution.¹⁵

*ACIP Post-Grant Patent Enforcement Strategies*¹⁶

29. In early 2006, the Government gave ACIP the following terms of reference:

“Inquire and report on issues relating to post-grant patent enforcement strategies to benefit the Australian economy by assisting patentees to effectively enforce their patent rights.”

30. The Options Report¹⁷ circulated by ACIP prior to its final report in 2010, referred to several inquiries into the area of patent enforcement, specifically:
 - a. Practice and Procedures for enforcement of industrial property rights in Australia (Industrial Property Advisory Committee), March 1992.
 - b. Review of the Enforcement of Industrial Property Rights (patent enforcement) March 1999.
 - c. Review of intellectual property legislation under the Competition Principles Agreement, September 2000.
 - d. Consideration of extending the jurisdiction of the Federal Magistrates Service to patent, trade marks and designs matters, November 2003.
31. The ACIP enforcement report made a number of recommendations. In doing so it identified a consistent theme since the ACIP petty patents report – the reluctance of SMEs to approach enforcement due to the uncertainty and expense associated with patent enforcement.¹⁸

¹⁵ Ibid.

¹⁶ ACIP, *Post-Grant Patent Enforcement Strategies – Final Report*, Australian Government (IP Australia) January 2010: <http://www.acip.gov.au/library/Final%20report%20dated%2016Jan2010.pdf> (the “ACIP enforcement report”).

¹⁷ Issued August 2009.

¹⁸ Above n 12.

32. ACIP referred to a submission made in a qualitative analysis undertaken by the Intellectual Property Research Institute of Australia (“IPRIA”), which stated:
- “In my experience, small players playing Goliath will not take action. A small player will even be cautious about writing a letter of demand, knowing full well the big player will use the unjustified threat procedure to commence proceedings, and then it’s out of your control.”¹⁹
33. IPRIA’s survey of Australian inventors found that a significant number of inventors felt that they did not have the resources to pursue the matter through the courts or even send a letter of demand.²⁰
34. Relevantly, ACIP recommended the establishment of a Tribunal to make non-binding decisions, but sought to encourage litigants to use the Tribunal by suggesting methods including recommending that a Court award costs against parties who:
- a. did not firstly obtain a ruling from the Tribunal before going to Court; or
 - b. obtained a ruling from the Tribunal but sought the Court’s decision thereafter.
35. The recommendation stated:
- “That an embodiment of the determination mechanism in the IP Dispute Resolution Centre is provided in the form of a Patent Tribunal along the following lines:
- a. That each Tribunal hearing panel to comprise up to 3 people, integrating legal and technical expertise
 - b. Tribunal hearing panel members to be drawn from the register of experts established under Recommendation 2;
 - c. Patent attorneys to have a right to appear;
 - d. The Tribunal to have more streamlined procedures and simplified evidentiary requirements than a court;
 - e. The Tribunal to take a pro-active and inquisitorial role;
 - f. Mechanisms be introduced to encourage parties to comply with the Tribunals non binding determinations, and to discourage parties from using the courts instead of the Tribunal where it would be appropriate to do so; and

¹⁹ The ACIP enforcement report p26.

²⁰ IPRIA working paper 10/2009 referred to in the ACIP enforcement report p26 footnote 49.

g. that the effectiveness of the Patent Tribunal be monitored from its date of establishment.”

36. The Government did not accept the recommendation for a number of reasons including that:

- a. It offended section 71 of the Constitution in allowing a Tribunal to make ‘judicial decisions’;
- b. It added another layer of determination in an already complex and expensive process.

37. The Government’s relevant response was as follows:

“In its report, ACIP considered the [Tribunal] has the power to issue determinative judgements. However, this is not viable because judicial power may not be vested in a body unless it is a court within the meaning of s.71 of the Constitution.

ACIP recommends that a Patent Tribunal without the power to issue binding determinations be established as an alternative. The Government considers that this model has limited benefits. Both parties [would need to agree in order to go to the] Tribunal. Its decision would not be binding and mechanisms to encourage the parties to abide by its decisions would be limited. Such a body may therefore only add another layer of appeal.

Parties in dispute already have the option of agreeing to arbitrate in a form of ADR. ...

On balance, the Government considers that the costs of a Patent Tribunal to the parties in a dispute, in particular the potential uncertainty created by such a body, outweighs the potential benefits at this time.”²¹

The Australian Innovation Patent Survey March 2013 – Verve Economics

38. On a date not disclosed in the report, but some time after the request of the then Minister for Innovation, Industry, Science and Research on 28 February 2011 to IP Australia, IP Australia engaged Verve Economics to undertake research to enable the possible economic impacts of innovation patents to be identified.²²

²¹ <http://www.acip.gov.au/reviews/all-reviews/review-patent-enforcement/> .

²² “*The Economic Value of the Australian Innovation Patent:*” – *The Australian Innovation Patent Survey* “ 24 March 2013 at p 5 (the “Verve Report”).

39. Verve Economics is a Canberra-based economic consulting firm offering expert advisory services in the areas of competition policy, regulatory analysis, transport economics, agricultural economics, productivity analysis, economic modeling, economics of innovation, public policy analysis and business strategy.²³
40. Verve Economics undertook a survey of 3195 inventors who had protected their inventions with innovation patents, ‘to gain a better understanding of the factors driving the use of innovation patents’.²⁴ (the author’s emphasis)
41. Over a period of 11 weeks 517 responses were received, giving a response rate of 16.2%.²⁵
42. The survey, its compilation and execution are the subject matter of Part 4 of the Verve Report.
43. The key findings of the Verve Report²⁶ were that:
 - a. Utility models were available in 90 countries including mostly developing countries and also some developed economies such as Australia, Austria, Denmark, Italy and Germany.
 - b. Utility models can account for well over a quarter of all filings in many countries;²⁷
 - c. In Australia SMEs and individuals accounted for approximately 90% of the innovation patent filings, with the remaining 10% being attributed to large corporations;
 - d. The main reason inventors used innovation patents were:
 - i. To protect the invention;
 - ii. To enhance the reputation of their firm.
 - e. There was only a minor use of innovation patents for strategic reasons such as building a patent thicket;

²³ The Verve Report at p ii.

²⁴ The Verve Report p III.

²⁵ Ibid.

²⁶ The Verve Report p 1.

²⁷ The Verve Report p 9.

- f. The main reasons inventors preferred innovation patents over standard patents were:
 - i. The faster grant time; and
 - ii. Lower cost.
- g. The lower inventive threshold was the least important reason for their use by inventors;
- h. The main alternative to innovation patents was being first to market;
- i. Trade secrecy and standard patents were also important alternatives for the inventors;
- j. Existing research suggested that the economic effect of utility models decreased with the rise of technological capacity in industries and countries. In this regard, it was noted that in the studies in the Republic of Korea, it was seen that firms used the knowledge acquired through utility models as a stepping stone to achieve higher level development, with early growth higher and reliance lower as economic development increased.²⁸

44. It was further noted that:

- a. the share of utility models of total patents in 2010 in :
 - i. Australia was 5%;
 - ii. China was 50%;
 - iii. Germany 20%.²⁹
- b. As at 1 December 2012, 15,032 innovation patent applications had been filed in IP Australia:
 - i. with approximately 40% still active comprising:
 - 1. Certified 8.6%;

²⁸ The Verve Report p 29.

²⁹ The Verve Report at p II.

2. Sealed 32.8%;
 3. Filed 0.3%.³⁰
- ii. with approximately 60% inactive mainly due to non-payment of renewal fees (42.7% ceasing and 8.2% lapsing).³¹
45. An interesting reference in the Verve Report was the example of the rapid development of the pharmaceutical industry in India. India does not have a utility model, however in 1970 a new patent legislation was introduced which included a 7 year protected process patent. As almost any chemical could be the subject of a process patent, this had effectively removed product patents for pharmaceuticals in favour of process patents.³²
46. The conclusion reached by the author of the Discussion Paper referred to in the Verve Report was that “even weak patent rights were effective ‘even in a poor country such as India.’”³³
47. Although the Verve Report considered that the majority of responses saw innovation in a positive light, it was noted that the results did not imply that innovation patents were providing a net benefit to the Australian economy as a whole.³⁴

The ACIP Review of the Innovation Patent System (with Corrigendum)

48. It may seem that it is unnecessary to consider or even state some of ACIP’s recommended changes in the light of ACIP’s subsequent statement issued 15 May 2015, that it was satisfied that the innovation patent system should be abolished. However, in circumstances where the author considers that the:
- a. Verve Report;
 - b. Paper O5 and its reliance upon IGPOD’s data, and
 - c. ACIP’s reliance upon the Paper O5, all suffer from a fundamental failure to take into account a relevant factor, that the conclusions based on the users and repeat users of the system are unreliable absent the impact of the enforcement

³⁰ The Verve Report p15.

³¹ Ibid.

³² The Verve Report p 27.

³³ Ibid.

³⁴ The Verve Report p IV and p 47.

factor. In particular, due to the impact of the uncertainty associated with costs of enforcement of innovation patents and the practicality that they do not differ substantially from standard patent enforcement costs, it is worthwhile to reassess the recommendations of the ACIP.

49. As stated above, on 28 August 2011, the then Minister for Innovation, Industry, Science and Research requested ACIP to inquire, report and make recommendations to the Australian Government on the effectiveness of the innovation patent system in stimulating innovation by Australian small to medium enterprises (SMEs) and, if effective, have regard to:
 - a. Any opportunities for enhancing its effectiveness and efficiency;
 - b. Any unintended consequences arising from its implementation.(the Terms of Reference)
50. The ACIP Final Report as published in May 2014 came to several conclusions (the ACIP Final Report).
51. The fundamental position it took in May 2014, was that it was unable to make a recommendation on whether to retain or abolish the innovation patent system due to its inability to identify any empirical evidence as to whether the innovation patent system does or does not stimulate innovation in Australian SMEs.³⁵
52. Put another way, there was a lack of empirical evidence to assist in determining whether there was justification to grant low level inventions patent protection.
53. The issue raised associated questions:
 - a. Whether innovation patents were a suitable reward for the investment made by the inventor; and
 - b. Whether the innovation would have occurred regardless of the existence of the innovation patent system.
54. ACIP, in its examination of the issues arising from the Terms of Reference, concluded that it did not support the continuation of the innovation patent system in the way it was presently configured and that the recommended changes needed to be addressed before a future date when the changes brought about by the *Raising the Bar* legislation³⁶ settled.

³⁵ The ACIP Innovation Patent report 2014 p 8

³⁶ *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth)

55. It did consider that there was sufficient evidence available from submissions and the Verve Report, to identify some matters for which it recommended some changes be made, should the Government determine to retain the system.³⁷
56. This first substantive recommendation was to raise the level of “inventiveness” from the current innovative step level, to a level still below the inventive step level for standard patents.
57. The test recommended was that the invention should be non-obvious to a non-inventive skilled worker in the field when compared to the common general knowledge anywhere in the world: *Minnesota Mining & Manufacture Co v Beiersdorf* [1980] HCA 9.³⁸
58. Relevantly, ACIP in making this recommendation said at page 9:
- “There is a growing awareness that robust, enforceable intellectual property rights, (IPRs) create incentive for innovation and contribute substantially to the economy ...”
59. In this regard, ACIP identified that in Australia, this robustness is directly tied to the level of innovation, which should not be measured in isolation from the level of innovation required for the equivalent protection in other jurisdictions.³⁹
60. ACIP considered the proposed test in *Minnesota Mining* provided several advantages:
- a. The test was higher than the present innovative step test;
 - b. There was considerable jurisprudence available on the application of that test;
 - c. The test was reasonably easy to understand as a scintilla of inventiveness above the relevant standard was sufficient.
 - d. It would respond to concerns there was no reference to the CGK as the relevant modification would insert the CGK into the test.⁴⁰
61. ACIP considered that raising the level addressed a number of concerns expressed, going to the question of lack of certainty which accompanied the system which had

³⁷ The ACIP Final Report Recommendation 1 at p 8.

³⁸ The ACIP Final Report p 9.

³⁹ The ACIP Final Report p 10.

⁴⁰ ACIP Recommendation 2 at p 9 to 12

the lower threshold of inventiveness and in circumstances where there was no obligation to certify the granted innovation patents.⁴¹

62. A further recommendation to address the uncertainty arising from uncertified innovation patents, was to recommend the compulsory request for an examination of the complete specification upon the third anniversary of the filing date of the application.⁴²

63. Recommendations 4, 5 and 6, addressing respectively:
 - a. A less confusing terminology for innovation patents;
 - b. Excluding method or process patents from protection under the utility model; and
 - c. The continuation of the remedies presently available, are simply noted in this submission at this stage.

The Economic Impact of Innovation Patents- Paper 05

64. The purpose of this research paper was to examine the economic impact of the innovation patent system in Australia.⁴³

65. Paper 05 also identified difficulties associated with considering evidence in other jurisdictions which included the varying terms of protection, differences in patentable subject matter, the name of the right and the differing requirements for examination.⁴⁴

66. Paper 05 considered that the scarcity of empirical evidence on second tier patent systems (as experienced by ACIP), could be overcome:

“We were confident that we could overcome this issue by using our recently published IP Government Open Data (IPGOD) which includes the complete IP registry with each applicant from 1990 to 2013 linked to Australian Business Numbers, allowing us to link innovation patent applicants with firm characteristics. In addition, IP Australia’s Office of the Chief Economist worked with data from the Australian Bureau of Statistics, the Department of Industry and Science , the

⁴¹ Ibid at p11 and 12.

⁴² The ACIP Final Report p 12.

⁴³ Paper 05 at p5.

⁴⁴ Ibid.

Australian Securities and Investment Commission and the Australian Business Register to build a comprehensive micro-dataset to allow detailed analysis of innovation patent applicants.”⁴⁵

67. IP Australia drew a conceptual distinction. It sought to measure the effects on inventors of innovation patents being available - the existence of the system , “rather than the effect of obtaining an innovation patent.”⁴⁶
68. Thereafter, Paper 05 sets out how it planned to implement the conceptual focus upon the effects on SMEs and inventors of the existence of innovation patents. IP Australia’s strategy was, after developing a large dataset of information, to review the existing empirical literature on second tier patent systems and replicate modelling done for other countries to estimate comparable effects in Australia.⁴⁷
69. Relevantly, Paper 05 assessed the economic impact of innovation patents as follows:
- “We investigated whether having innovation patents would encourage R & D and traditional patent applications that would not otherwise have occurred, particularly by SMEs. The evidence suggests that this does not happen.

Private inventors and SMEs do participate in the innovation patent system, but the vast majority, 74% of all applicants between 2001 and 2013, only ever file one innovation patent, and tended to allow their innovation patents to lapse early, rather than pay the renewal fee. This suggests that the vast majority of SMEs found little value in the system, or at least not enough value to use either the innovation or standard patent system again, or indeed pay the renewal fee of \$110 to \$220.”⁴⁸

The ACIP Statement May 2015

70. This statement made by ACIP, which it is noted was abolished in April 2015,⁴⁹ simply refers to, repeats and relies upon Paper 05 in its recommendation to abolish the innovation patent system.

The flawed premises of the Verve Report, Paper 05 and the ACIP statement

⁴⁵ Paper 05 at p 6; Paper 05 also identified difficulties associated with considering evidence in other jurisdictions which included the varying terms of protection, differences in patentable subject matter, the name of the right and the differing requirements for examination.

⁴⁶ Paper 05 at p 5.

⁴⁷ Paper 05 at p 6.

⁴⁸ Paper 05 at p 30.

⁴⁹ The ACIP home page <http://www.acip.gov.au/> contains the following notation:

“The Advisory Council on Intellectual Property (ACIP) was abolished in April 2015. Reviews of IP Matters will be coordinated by IP Australia in the future.”

71. The difficulty with the approaches of all these reports and recommendations, is that in seeking to measure the effects on SMEs and inventors of the innovation system, they have assumed that all the elements which can attribute to the statistics on use of the system and behavioural activity have been taken into account.
72. In their enthusiasm to gauge the value of the system to SMEs and inventors, they have failed to have regard to possibly the most important factor, which can explain in large measure the behaviour – information relevant to the enforcement of innovation patents. At the very least, this factor would have contextualised the empirical data.
73. The author considers it extraordinary that such undertakings have been commenced without even attempting to include as a potential factor impacting upon the very conduct being considered , practical difficulties associated with the enforcement of innovation patents.
74. The author will deal firstly with the Verve Report.
75. In relation to enforcement of the innovation patents, the Verve Report noted that the expected enforcement costs were not as important as the quicker cheaper solution to protection with innovation patents.⁵⁰ However, the report does indicate that in asking the question which evinced that response, there was an expectation by Verve Economics that the enforcement costs of innovation patents would be lower than that of standard patents.⁵¹
76. Perhaps Verve Economics assumed this fact from the distinction drawn as to the breadth of innovation patents being narrower than standard patents:

“An innovation patent is likely to have lower breadth than a standard patent because the innovative step is lower and because a maximum of five claims is allowed, compared to unlimited claims in a standard patent application.”⁵²
77. It is a fact which is not obvious in practice.
78. Now moving onto Paper 05 and the ACIP Final Review (with Corrigendum), which based its amended recommendation upon Paper 05.
79. It has been repeatedly noted in these papers that the innovation patent system was introduced to encourage SMEs to obtain protection for low level inventions. However,

⁵⁰ The Verve Report p III and p 41

⁵¹ Chart 17 at p 41 identifies the enforcement response by the words “The lower expected cost of enforcing the innovation patent”

⁵² The Verve Report at p 20.

the gymnastics undertaken with this data has omitted to factor in some practical matters that have not rated even a mention, despite ACIP's warning when it conducted its first review, the review of the petty patent system, that a major problem raised in the consultation process was the problem of providing a lower level tribunal for the enforcement of intellectual property rights "at a cost commensurate with the likely value of the rights involved."⁵³

80. Innovation patents were introduced to accommodate and encourage SMEs and inventors to obtain some protection for lower level inventions, which might not satisfy the requirements of standard patents. Neither Paper 05 nor the ACIP review and final recommendation to abolish the innovation patent system, considered it relevant that an SME or inventor, when facing the option of certifying the innovation patent and spending (or being at risk of incurring if unsuccessful) costs of anywhere between \$100,000 and \$500,000 (or upwards), might not wish to pay \$110 - \$220 for the cost of renewal, when faced with the exposure of enforcing the rights.
81. It is not the cost of renewal which is prohibitive, it is the fact that there is no certainty that enforcement will not become a money pit from which the SME or the inventor will not recover.
82. Notwithstanding this practical position, Paper 05 seizes upon the failure to pay renewal fees as evidence in the form of a litmus test representing the SMEs' and the inventors' valuation of the worth of the innovation patent.:

"Only 23 SMEs have become moderate users of the innovation patent system, filing at least 5 innovation patents, with at least one enforceable right, and entering the patent system via an application for an innovation patent. The average SME or private inventor files once and never again (74%) does not receive any enforceable right (83%), and lets their patent expire early because they see its value at less than the \$110-\$220 cost of renewal (78%)."⁵⁴
83. That is a misconceived and myopic interpretation of the data.
84. This approach suggests that possibly IP Australia is not the best party to be making these assessments, given its understandable gravitation to one aspect of the patent system – the application process.
85. The conduct of SMEs and inventors in making applications, renewals and applications for examinations, cannot be considered away from some very practical considerations which are associated with the enforcement of innovation patents.

⁵³ ACIP Petty Patents review p 6.

⁵⁴ Paper 05 at p 3 Executive Summary.

86. Firstly, there is no discernible difference in the cost of enforcing or defending innovation patents and standard patents.
87. Just as in the case of litigating petty patents, the costs of enforcement of innovation patents are not reflective of a difference commensurate with the aim of innovation patents providing patent protection for patents which are quicker, easier to obtain and which have a lower threshold of inventiveness.
88. Put simply, the differences in acquiring an innovation patent, as opposed to a standard patent, are not equally discernible in enforcement.
89. Infringement actions based upon innovation patents must be pleaded and particularised in the same way as standard patents. Expert evidence is almost always relied upon in the infringement action and/or in the invariable cross-claim for revocation which is associated with the overwhelming majority of patent infringement actions.
90. Secondly, the theoretical argument that innovation patents are cheaper to litigate based upon the fact that they are limited to 5 claims is fallacious.
91. Notwithstanding there is no limit to the number of claims in a standard patent, the questions of validity and infringement for both innovation patents and standard patents usually centre around between 1 and 5 claims.
92. The author has no empirical evidence to support the statement, but relies upon the practice of being briefed in matters involving petty patents, innovation patents and standard patents and reviewing for legal publications since 1999, patent decisions of the High Court, the Federal Court and State Courts.
93. In summary, in considering the question of whether innovation patents have satisfied the policy objective of encouraging innovation among Australian SMEs and inventors, the impact of the practical difficulties associated with enforcement of these innovation patents cannot be divorced from the conduct identified in the data and focussed on the actions of applying for protection, renewing the protection or requesting examination.

The UK 2015 evaluation of the Intellectual Property Enterprise Court

94. Between 2010 and 2013, the Intellectual Property Enterprise Court (IPEC), formerly known as the Patents County Court (PCC), underwent a series of comprehensive reforms.

95. On 22 June 2015, an evaluation of the performance of those reforms was published .⁵⁵

96. The UK IPEC Evaluation noted the aim of the reforms as follows:

“The aim of the reforms was to improve access to the court, especially for small and medium enterprises (SMEs), primarily through streamlining the court’s procedures, lowering the costs of litigation, and speeding up the resolution of claims ... The objective was to ensure that the IPEC hears less complex claims than those heard at the [High Court]/Patents Court (PHC), while offering those litigants a speedier resolution system within which both recoverable costs and damages awards are limited.”⁵⁶

97. The evaluation identified the result of certain procedural shortcomings in these terms:

“The cumulative effect of these three shortcomings was that litigation could be undertaken at the PCC and the HC/PHC ‘with the same procedures and the same price’ – a situation that was perceived as blurring the lines between the types of cases heard at the PCC and the HC/PHC, and which did little to encourage SMEs to enforce their IP rights at the court.”⁵⁷

98. The reforms relevantly included :

a. A total recoverable costs cap of £ 50,000 (with an additional cap of £ 25,000 relating to hearings concerning damages);

b. A damages cap applicable to all IP claims of £ 500,000.⁵⁸

99. The evaluators undertook a methodology between May and December 2014, of collecting and analysing the views of lawyers with IPEC experience, litigants who had used the IPEC and PHC in pre and post-reform environments.⁵⁹

100. In determining the most important reform , the evaluators asked the following question:

⁵⁵ “Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010-2013” 22 June 2015, Santa Clara University, Toulouse School of Economics and Cardiff University at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/447710/Evaluation_of_the_Reforms_of_the_Intellectual_Property_Enterprise_Court_2010-2013.pdf (the “UK IPEC Evaluation”)

⁵⁶ The UK IPEC Evaluation at p 2.

⁵⁷ The UK IPEC Evaluation at p 4.

⁵⁸ The UK IPEC Evaluation at p 5.

⁵⁹ The UK IPEC Evaluation at p 6

“Which of the reforms – costs cap, damages cap, ACM (active case management), SCT (small claims track) had the biggest impact?”

101. The evaluation noted:

“Overall, the majority of interviewees – 53% - stated that the decision to cap the costs at a ceiling of £ 50,000 at IPEC MT has proven to be the most important reform with respect to attracting litigants to court. The reason for this is that post reform the litigant knows what his or her exposure to costs will be in the event of loss. In other words, the existence of the cap gives litigants confidence that the costs of litigation - either as a claimant or defendant – will not outweigh the benefits.”⁶⁰

102. It was noted that the cap on damages was the least relevant reform based on the emphasis for injunctive relief to stop the conduct rather than the damages which often is difficult to prove in IP cases:

“It is interesting to note that the IPEC MT damages cap of £ 500,000 is perceived as the least influential reform – in fact, 82% of all interviewees stated that the cap is either ‘irrelevant’ or ‘of little significance’, largely because the central remedy sought at IPEC MT is an injunction.”⁶¹

The author’s observations

103. The introduction of the costs cap and to a lesser extent the damages are a reform most suitable to application to the litigation of innovation patents.

104. They would provide a certainty for innovation patent owners which would encourage them to seek to enforce their rights associated with the innovation patent. It would introduce a certainty as to exposure not present at the moment.

105. The response in the UK to the damages cap is in the author’s experience, a response which would be expected in Australia. The principal relief sought is that of restraining the alleged infringer from infringing the patent. The damages cap is not insignificant in any event.

106. There could be introduced some streamlining measures for innovation patents to respond to the perception that:

“perception among user groups that the present enforcement procedures are lengthy, complex and expensive’ and provide a system which is ‘less complex and less

⁶⁰ The UK IPEC Evaluation at p 8

⁶¹ The UK IPEC Evaluation at p 9.

expensive'⁶², commensurate with the difference at the entry level between standard and innovation patents.

The author's recommendations

107. The recommendations of ACIP in the Final Report May 2014 for the Recommendation made by the statement issued May 2015, be adopted.
108. The Patents Act 1990 be amended to reflect a limit upon damages which may be awarded in innovation patent infringement actions to a figure to be set.
109. The Federal Court Rules be amended to reflect a costs cap to be applied in cases involving the enforcement and/or revocation of innovation patents.
110. Consideration be given to appoint to the Federal Circuit Court specialist practitioners in Intellectual Property who might take the copyright, trade mark and design cases.
111. Upon the adoption of the preceding recommendation, to extend to the FCC jurisdiction in relation to the enforcement of innovation patent rights and/or applications for their revocation.
112. If the two preceding recommendations are adopted, to amend the Federal Circuit Court rules accordingly on the question of costs and introduce case management procedures for the proper conduct and disposal of litigation involving innovation patents.
113. The author anticipates statistical information being presented to the effect that the FCC does not have sufficient throughput of intellectual property cases to justify such appointments. However, this position fails to take into account a practical response.
114. As a user of the system, the author considers that if there were such specialists appointed to the FCC, that the number of intellectual property matters directed to the FCC would increase.
115. The author has been involved in litigation since at least 2006 in the Federal Magistrates Court (FMC) now the Federal Circuit Court (FCC), under the Court's jurisdiction of the *Trade Practices Act 1974* with the trade mark issue being accommodated under the associated jurisdiction of the court under s 18 of the then Federal Magistrates Court Act.

⁶² ACIP Petty Patents review at p 56.

116. In one matter involving a patented racing bicycle, the author was briefed on behalf of the applicant. The matter was trade practices grounded with jurisdiction also under the Copyright Act 1968 in respect of the two dimensional plans for the bicycle. In addition, the applicant relied upon the associated jurisdiction for the trade mark and patent matters. As a result of the applicant's success in a related trade mark opposition before the Registrar, the other side appealed their loss to the Federal Court and the FMC matter was also referred to the Federal Court to join the trade mark opposition appeal.
117. The author submits that if there were such appointees with broad based IP backgrounds, the difficulties the government had in 2007 in rejecting the extension of the jurisdiction in patent matters (with which the author agreed at that time), would be overcome.
118. Innovation patent litigation could be accompanied by simplified procedures to reflect the simpler features of the system.
119. The author considers that with capped fees for innovation patent matters and IP specialist appointments, particularly with experience in patent litigation, more SMEs and inventors would be attracted to use the FCC. The increased SME usage with capped costs to a specialist patent court was the experience of the UK evaluation.⁶³
120. The recommendation for the appointment of broad based IP specialists to the FCC, is of course not a reflection on the judges of the FCC. Their Honours have a very wide scope of practice areas and have been the source of very helpful determinations in copyright matters.. The recommendation however is an acknowledgement that their Honours have a wide jurisdiction and that intellectual property is a complex and specialist area.
121. If the extension of the FCC jurisdiction to innovation patent litigation were considered, of course the Patents Act would require amendment.
122. Finally, the author has recommended the utilisation of the expert resources of IP Australia in a paper written and circulated to government and the Federal Court in 2013. The paper advances the use of a panel of experts from IP Australia to act as a panel providing the Court with an expert opinion on validity. Published paper in 2 parts accompanies this submission.

⁶³ The UK IPEC Evaluation as noted in the abstract and p 18..