

## **Submission to IP Australia**

---

# **Patentable Subject Matter: Consultation on an objects clause and an exclusion from patentability**

---

Chris Dent, Intellectual Property Research Institute of Australia

**September 2013**

### **Contact Details**

The contact for this submission is: Dr Chris Dent,  
Principal Research Fellow, IPRIA

**WEBSITE:** [www.ipria.org](http://www.ipria.org)



THE UNIVERSITY OF  
MELBOURNE

IP Australia has asked for comments on its “Patentable Subject Matter” Consultation Paper – a publication that discusses reforms to the *Patents Act 1990* (the “Act”). This submission is based on work I have done at the Intellectual Property Research Institute of Australia. The views here, however, are my own and should not be considered to reflect those of my current employer.

My responses to the questions posed by IP Australia are:

1. I do not have a preference for either option for an Objects Clause discussed in the Consultation Paper as both are insufficient to provide the objects of the Act.
2. As a result of the reasons to my response to Question 1, I do not think that the Exclusions Clause as proposed by IP Australia is sufficient.
3. I do not agree with the proposal to amend the Act to give the Commissioner of Patents the power to seek advice on ethical matters.

The reasoning that supports my responses is set out below.

## **Objects Clause**

My objection to both proposed options is based on the assessment that neither go far enough with respect to the purposes of the entire Act. Put simply, there is a significant distinction between the purpose of patents and the purpose/s of the overall *system*. If one of the reasons to have an Objects Clause is to help interpret the Act, it is not clear how either option would assist the adjudication of a dispute under either Chapter 19 (The Register and official documents) or Chapter 20 (Patent attorneys).<sup>1</sup> That is, it is not clear how the balancing of the interests of the specified stakeholders relate to these Chapters. I would argue, instead, that a more expansive understanding of the patent system be adopted and, as a result, a more inclusive Objects Clause should be incorporated into the Act.

If my argument is not accepted and one of the two proposed options is used, I would suggest that the Clause is limited, explicitly, to specific applications of the Act – such as, for example, the adjudication of patent rights.

---

<sup>1</sup> Admittedly, there are few, if any, disputes under these Chapters; nonetheless, if the Objects Clause purportedly covers the whole Act, then it should be relevant for all Chapters of the Act.

So, if the system is more than just the adjudication of patent rights – what are its limits? A related question is – is the basic purpose of the system an economic one or is it aimed at the creation of new knowledge? Of course, the system could have multiple purposes. As is evident from s. 18(1)(a) of the Act, the regulation of patent monopolies extends back to the early modern period – a time before the English Enlightenment and when the national market was the plaything of the Crown.<sup>2</sup> The longevity of the system would suggest two things: first, it is adaptable; and, second, it is not likely to have performed the same function consistently over its whole life. If the latter suggestion is the case, then it is also likely that aspects of previous purposes still persist today.

As the Advisory Council on Intellectual Property (ACIP) notes, the system ‘serves three roles: to provide incentives to innovate; to encourage dissemination of knowledge; and to facilitate technology transfer, commercialisation and diffusion of knowledge’.<sup>3</sup> ACIP did not prioritise these roles; however, historically, the system has focused on the benefits that arise from the introduction of new knowledge to a country,<sup>4</sup> rather than focusing on the “incentivisation” of domestic entities to create new knowledge. Further, the fact that some industry sectors prefer protecting innovation via keeping it secret,<sup>5</sup> and that the levels of patenting vary from sector-to-sector,<sup>6</sup> suggests that not all new knowledge requires the patent system to bring it into being.

This, then, raises the question as to the description of the purposes of the Act to be expressed in the Objects Clause. It will be uncontroversial to highlight the importance of knowledge to the system (though a question may remain about whether it is knowledge in general, “technical” knowledge or “commercialisable” knowledge). It is less clear that the “incentive” role of patents should have equal prominence – given the fact that significant levels of innovation takes place without patents and that it has been shown, at least overseas, that patents are sought for multiple purposes.<sup>7</sup> It may be sufficient to simply acknowledge that

---

<sup>2</sup> The *Statute of Monopolies 1624* may be best seen as the result the tension between the Crown and the Parliament in the area: see C. Dent, “‘Generally Inconvenient’: The 1624 *Statute of Monopolies* as Political Compromise” (2009) 33 *Melbourne University Law Review* 415.

<sup>3</sup> Patentable Subject Matter Report, 24.

<sup>4</sup> See, for example, C. Dent, ‘Patent Policy In Early Modern England: Jobs, Trade And Regulation’ (2006) 10 *Legal History* 71.

<sup>5</sup> See, for example, Australian Bureau of Statistics, *8158.0 Innovation in Australian Business, 2008-09*, Table 1.

<sup>6</sup> See, for example, the discussion in B. Hall and D. Harhoff, *Recent Research on the Economics of Patents*, NBER Working Paper 17773, 2012.

<sup>7</sup> Reasons, beyond the protection of innovation, include to create ‘retaliatory power against competitors’; create ‘better possibilities of selling licences’; provide ‘motivation for employees to invent’; provide a ‘measure of R & D productivity’; and to improve the ‘corporate image’: O. Granstrand, *The Economics and Management of Intellectual Property: Towards Intellectual Capitalism*, 1999, 78. Other reasons that have been cited include to

patents may offer an incentive without assuming that, in every case, inventions only come into being as a result of the “carrot” of patent protection.

The acknowledgement that patents are not necessary for innovation then opens up the possibility that the system may have another economic purpose. In other words, the system needs a purpose regardless of why patentees sought their patents, or whether the inventions would have been created but for the patents. In this respect, I would argue that the Act regulates, or at least facilitates, the exchange of inventions and innovations that have been protected by patent rights. That is, the Act:

- Authorises the transfer of patent rights (s. 13);
- Sets out the rules by which the owners of the rights may seek redress when their inventions have been used without their permission (the infringement provisions as well as the provisions giving specific courts jurisdiction in patent matters);
- Provides for contractual conditions relating to the exchange of patent rights that are void (Chapter 14);
- Establishes the Register of patents that allows for the accountability of people claiming patent rights in an invention (Chapter 19); and,
- Details when inventions may be used without the permission of the patentee (provisions relating to compulsory licences, Crown use and the various infringement exemptions).

Further, the Act may be understood to “allocate” three levels of value to an innovation – an invention may be good enough to qualify for a standard patent, an innovation may be good enough to qualify for an innovation patent (but not a standard patent) or the development may not be good enough to qualify for either. Of course, the final of the three levels of value applies both to those developments that have been the subject of an unsuccessful application and those that were not detailed in such an application (and there could be other reasons for no such application to be filed that bear no relation to the “quality” of the development). Regardless, a person or company seeking to purchase the rights to use a development may base their decision, in part, on the value attributed to the development by the patent system – and not on whether the patent right, in fact, incentivised the development. It, therefore, may be worth highlighting this facilitation of exchange as a purpose of the Act.

---

‘obtain financing and boost market valuation’; to use ‘as signalling mechanisms’; and to ‘deter others from suing’: M. Lemley and C. Shapiro, ‘Probabilistic Patents’ (2005) 19 *Journal of Economic Perspectives* 75, 81.

There is another area in which the proposed options for the objects clauses do not go far enough – the characterisation of the stakeholders of the system. The ACIP proposal refers to the ‘rights-holders, the users of technology and Australian society as a whole’. The IP Australia proposal adds ‘patent applicants’ to the list. Neither proposal refers to inventors;<sup>8</sup> neither proposal refers to the competitors of the patentees; and neither proposal, in its reference to the ‘users of technology’, differentiates between downstream manufacturers and the consumers of products that incorporate the technology. Each of these categories has a different “relationship” with the patent system and each has different interests that may be taken into account when interpreting the Act.

The interests of inventors are of central relevance to the interpretation of the Act as it is they who produce the new knowledge. Much of the commentary conflates the interests of the patentee and the inventor – perhaps a carry-over of the nineteenth century ideal of the backyard tinkerer – but the interests of the two categories are not, necessarily, the same. As the Act already makes reference to the “inventor” (s. 15(a)), there can be little harm in including reference to this important class of stakeholders in the Objects Clause.

The interests of a patentee’s competitors need to be considered as it they who are most immediately affected by the “quality” of the rights granted under the Act. It is almost trite to refer to the tension between patents and competition policy. It is, of course, the competitors of the patentees who are most inconvenienced by patent rights that should not have been granted or those that exceed the scope of the underlying invention. Currently, the Act makes provision for their interests in Parts 2 and 3 of Chapter 11; and, in effect, it is the competitors who take advantage of the provisions in Chapter 5. There would be value, therefore, in formalising their interests by including reference to competitors in the Objects Clause.

It also may be worth distinguishing between the interests of downstream users of the technology and the end consumers of any product that contains the patented invention or innovation. Again, the interests of the two groups are different. Downstream users of the technology may have no option but to use the patentee’s invention or innovation – such as where the patent relates to an industry standard; whereas end consumers may have greater choice between using a product using a particular patent (even if the choice is only between buying a product containing the invention or buying nothing at all). The differing constraints

---

<sup>8</sup> It may be noted that the version of the New Zealand Bill, after the Committee stage, did refer to the interests of inventors.

on the decisions of these two categories of stakeholders may be sufficient to list them separately in any Objects Clause.

Not all stakeholders, however, may need to be referred to. The attorney profession is, of course, another stakeholder; however, it is not clear that the interests of the profession need to be balanced along with the interests of the other stakeholders. This is because, unlike the other stakeholders, attorneys do not have an interest in the exchange of inventions and inventions (beyond their interest as members of society); further, they do not have an interest in whether the patent rights acted as incentive to the invention or innovation. Attorneys are, and are only, the intermediaries by which an entity (whether it be the inventor or just the applicant) may effectively gain the patent rights that the entities are entitled to. So, the profession have an interest in the system being usable and efficient but do not have a specific interest in the outputs of the system.

That said, the other stakeholders have an interest in the proper regulation of the profession. The Act provides for a set of minimum standards for entry into the profession and a mechanism for the deregistration of attorneys – both of which give patent applicants greater faith in their dealings with attorneys. Further, it has been suggested that the advice provided by attorneys to their clients is important for the public policy objectives of ‘sustaining the economy’ and ‘maintaining the patent system’.<sup>9</sup> This suggests that the proper operation of the profession is of interest to everyone who engages with the patent system. This suggests that the regulation of the profession should remain within the provisions of the Act (not that there has been any call to have it excised); however, this is not a sufficient justification for the inclusion of the profession in the Objects Clause.

Finally, there may also be value in explicitly referring to the international instruments that set out a number of constraints on the interpretation of the Act. As noted in the ACIP Report, the proposed objects clause in the New Zealand Patents Bill made reference to that country’s ‘international obligations’.<sup>10</sup> A reference to the international context of the Act, while not news to those who operate within the system on a daily basis, may be of educational value to those who are new to the Act.

One option that encapsulates my reasoning – despite perhaps being phrased inelegantly – is:

---

<sup>9</sup> C. Dent, E. Hall & A. Christie, ‘For the Health of the Economy and Patent System: Rationale and Scope of Patent Attorney Privilege’ (2009) 4 *Journal of Intellectual Property Law and Practice* 23, 29-30.

<sup>10</sup> Patentable Subject Matter Report, 23.

- (1) The objects of the Act are to:
  - a. Give effect to Australia's international obligations with respect to a system that establishes, and allows for, the protection of patent rights for inventions; and
  - b. To foster the development of knowledge in this country.
- (2) To achieve these objects, the Act provides for:
  - a. Patent rights that can act as an incentive for invention and innovation; and
  - b. A system that facilitates the fair exchange of invention and innovation through
    - i. An examination process that establishes a minimum standard of invention or innovation that justifies the granting of a patent; and
    - ii. An enforcement process that allows for the protection of valid patent rights.
- (3) The interpretation of the Act should account for the social, cultural and economic welfare of Australia through a balancing of the interests of inventors, rights holders, the competitors of the rights-holders, the end-users of the protected inventions and innovations and the society as a whole.

### **Exclusions Clause**

If there is an Objects Clause to the Act, there may be a degree of regulatory purity to having any exclusions from patentability relate directly to that clause.<sup>11</sup> Expressed differently, if there is an exclusion clause that does not relate to the objects clause, then it is likely that the objects clause does not fully encapsulate the full purpose/s of the legislation. It is, in part, for this reason that I consider that the suggested Exclusion Clause is not the ideal option to be adopted.

Regardless of whether one of the two proposed Objects Clauses, or a modified version of my suggestion, is incorporated into the Act, one focus of the Objects Clause will be to balance the interests of the stakeholders in the patent system. Any Exclusions Clause may be couched in terms of this balancing. It may be, for example, that inventions that are against the social or economic welfare of Australian society as a whole should be excluded. Given the requirement that interests of the parties (inventors, patentees, their competitors, consumers

---

<sup>11</sup> For a discussion of the Patents Act from a regulatory perspective, see C. Dent, 'The Possibilities of a Regulatory Approach to Answer the Question: Should Genetic Inventions be Patentable?' (2012) 22 *Journal of Law, Information and Science* 16.

and broader society) have to be balanced, then the only inventions that should be excluded are those that are so against the interests of one or more of the parties (or the broader society) that no benefit to the other parties could outweigh the negative impact experienced by the affected parties. This is, necessarily, a very high hurdle. If this is the case, then the question becomes how to express such a limitation in such a way that is clear and “actionable” by the Commissioner of Patents (or her delegate).

Perhaps the first step in answering that question is to consider whether all categories of interests are relevant to the Exclusions Clause. It may be, for example, that the economic interests of the parties or Australian society are not relevant to the Exclusions Clause because the temporary nature of the monopoly (under Chapter 6) means that it is not possible that any economic interests could be so badly affected by any specific invention that such an invention should be excluded from patentability. That leaves, at least from my proposed Objects Clause, the “social and cultural” interests of the Australian society as a whole (on the basis that it is not clear that the other categories of stakeholders have specific social or cultural interests).

The question then shifts to whether Australian society should be treated as a monolithic whole or whether it would be sufficient that a given invention is counter to the social and cultural interests of a particular group in society. To see Australian society as homogenous risks the unwarranted privileging of the numerically dominant Anglo-Celtic demographic; however, to disallow inventions that are against the interests of a minority may raise other concerns. Regardless of which population, or sub-population, is used to assess the interests of the society, there remains the issue of who has the power, knowledge or right to speak for those interests.

It should also be emphasised that the test, from the perspective argued here, should relate to the *interests* of the society and not the ethics that some may say underpin those interests. The interests of the patent attorney profession (to take an easily definable group involved in the patent system) are not the same as the Code of Ethics put out by the Institute of Patent and Trade Mark Attorneys of Australia.<sup>12</sup> It may seem, therefore, that the interests of Australian society are not the same as the vaguely Judaeo-Christian values that could be seen to be the basis of society here.

---

<sup>12</sup> Available from <http://ipta.org.au/wp-content/uploads/2012/10/Memorandum-Articles-Current-as-at-9-March-2012.pdf>.

To explore this distinction, attention may be paid to the one existing exclusion that barely rated a mention in the ACIP Report – the one relating to scientific discoveries and theories. This is a key exclusion from the Act (though it may be noted that it was developed through case law, rather than legislatively<sup>13</sup>) and one that may be understood in terms of the balancing of interests of the stakeholders – rather than to any arbitrary assessment of society’s underlying principles. The discovery exclusion may be seen as necessary because the interests inventors, and the broader society, have in access to discoveries would be impacted in such a negative manner that no benefit to be gained by an individual patentee could ever balance out. That is, the patenting of discoveries and theories is so against the interests of further research – the creation of new knowledge – that they are excluded from patentability.

Regardless of the reception of the proposal offered in this submission, it should also be noted that the construct of the “ordinary reasonable and fully informed member of the Australian public” is problematic. ACIP noted that the ‘reasonable person’ test is ‘commonly used in law’;<sup>14</sup> and reference could also be made to the “person skilled in the art” construct in patent law. What ACIP did not highlight is the fact that both of these tests have developed over the last two centuries.<sup>15</sup> In other words, these concepts did not emerge “fully formed” into the jurisprudence. There is no reason to think that the development of the “ordinary reasonable and fully informed member of the Australian public” would be any quicker in its development. Indeed, the superficial similarities between it and the “reasonable person” test could, in fact, add to the development time as the courts would have to assess the differences between the two formulations, rather than focussing on the similarities (or starting from a blank slate). Added to that, the “person skilled in the art” and the “reasonable person” tests were developed in areas of law in which there was a great deal of litigation – it is unlikely that this would be the case for an Exclusions Clause in the Patents Act.

---

<sup>13</sup> Any suggestion that the “manner of manufacture” requirement of the *Statute of Monopolies* acted as a legislative exclusion for theories ignores the fact that the understanding of knowledge as a concept was significantly different before the Enlightenment. It was not until the late eighteenth century that the courts turned their mind to whether theories could be patented: *Hornblower v Boulton* (1799) 8 TR 95, 106; 101 ER 1285, 1291, Lawrence J.

<sup>14</sup> Patentable Subject Matter Report, 67.

<sup>15</sup> The origins of the “person skilled in the art” test may be found in concepts such as ‘persons of reasonably competent skill’ referred to in *Harmer v Plane* (1809) 11 East 101; 103 ER 943. With respect to the “reasonable person”, one of the first uses of the phrase “reasonable man” in the area of tort law is in *Blyth v Birmingham Waterworks* (1856) 11 Ex 781; 156 ER 1047. It took over a century, however, for that standard to be fully accepted into the area of negligence law: R. Buxton, ‘How the Common Law Gets Made: Hedley Byrne and other Cautionary Tales’ (2009) 125 *Law Quarterly Review* 60.

## **Proposed Power of Commissioner to Seek Advice**

Absent a dedicated advisory body, it is not clear that the Commissioner has the expertise with respect to who, or which institution, should be approached for advice relating to inventions that may be subject to any Exclusions Clause. If the Exclusions Clause remains focused on ethical matters, there are a wide range of bodies that claim expertise in the area – not all will reflect the views of the “ordinary reasonable and fully informed members of the Australian public”. That is, it is not clear who, or what institution, should be approached in order to access the relevant views. Further, if the Exclusions Clause is focused in the balancing of interests, it is even less clear whose interests will be sufficiently affected by which inventions to require the intervention of the Commissioner – and who should be approached to provide an assessment of those interests.

Finally, it is not clear that advice should be sought. ACIP acknowledged that the “ordinary reasonable and fully informed members of the Australian public” test could only be developed through case law. This means the test has to be the subject of litigation. Inventors (because it is they who are most impacted by any Exclusions Clause) could only gain any clarity, or certainty, about the scope of such a Clause after a court has ruled on it. As a result, it may be counter-productive to do anything that would delay the development of the test. This could suggest that, as soon as there is an invention that could be conceivably unpatentable, due to its subject matter, the Commissioner should refuse to grant a patent (on the basis of the Exclusion Clause) and then the applicant has the option of challenging the decision through the courts. Obviously, once the courts have further developed the test, then there may be greater clarity as to which body is the appropriate body to be approached, by the Commissioner, when assessing the patentability of an invention (in terms of the potential application of the Exclusions Clause).