

PATENTABLE SUBJECT MATTER

Response to IP Australia's "Consultation on an objects clause and an exclusion from patentability", July 2013

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In yet another non-transparent "consultation" exercise – largely involving only those benefiting from the patent system – IP Australia has issued a consultation paper on patentable subject matter. This derives from the appallingly self-serving report by the Advisory Council on Intellectual Property (ACIP 2010). At the time that report was released, the membership of ACIP included no-one who was not a direct beneficiary of the restraints on competition that IP Australia hands out.¹

The current paper raises two issues: an objectives clause for the Patent Act and a clause to specify how the *ordre public* exception to patentability should be interpreted.

A patent objectives clause: why is it needed

The importance of inserting a clear objective into the *Patent Act 1990* now seems to be generally recognised. The evidence from legal decisions shows that without this Australian courts regularly make decisions that reduce Australia's economic wellbeing. These include:

- *Minnesota Mining and Manufacturing v Beiersdorf* (1980) 144 CLR 253
 - : overturning the synergy doctrine and effectively required written evidence of obviousness to reject an application for a new combination of known elements or processes that produced no unexpected result or result that was greater than the sum of the parts.
- *Re International Business Machines Corporation v Patrick Anselm Smith, Commissioner of Patents* [1991] FCA 625 (13 December 1991)
 - : allowing a patent for software, despite bi-partisan agreement with the IPAC report that patents were not to be extended to software.
- *Ccom Pty Ltd v Jiejing Pty Ltd* [1994] FCA 1168 (22 June 1994)
 - : an extraordinarily low inventive step requirement - upheld a patent for the mere computerisation of a known process (translating Chinese to English).
- *Anaesthetic Supplies Pty Ltd v Rescare Ltd* (1994) 50 FCR 1
 - : determining that Senate negotiations with minor parties holding the balance of power which included passage of the Patents Bill 1990² meant that parliament had intended that all traditional exclusions from the patent system be abandoned. There is no evidence of any such intent – indeed there was bi-partisan support for the Patents Bill 1990.

¹ IP Australia does not provide back records of ACIP membership on its website, so this is from memory. But at around this time advertisements for new members indicated clearly that benefitting from the privileges handed out by ACIP was an essential qualification (see Attachment). IP academics may not consider themselves as beneficiaries of the system – yet the broader the reach of the system, the larger the number of potential students.

² Leading to the "Harradine amendment" (Sections 18 (2) and (3)).

- *Welcome Real Time SA v Catuity Inc* (2001) 51 IPR 327.
 - : Granting a patent because consumer loyalty specialists were ignorant of well-known dynamic storage technology; extending patents to business methods without any discussion of the costs and benefits simply because a court in another country had done this.
- *Aktiebolaget Hässle v Alphapharm Pty Ltd* (2002) 212 CLR 411.
 - : emphasising the scintilla standard for inventiveness – "led directly as a matter of course"
- Obiter in Full Federal Court *Grant v Commissioner of Patents* [2006] FCAFC 120, particularly 44-45
 - : Stating that it was not up to the court to determine balance in the patent system (between social cost and public benefit) on the peculiar logic that the systems level parliamentary decision to have a patent system absolved the courts from any such scrutiny of individual patents. If each of the parts fails the test, how can the sum of them pass?
- *Commissioner of Patents v Emperor Sports* (2006) 225 ALR 407; (2006) 67 IPR 488; [2006] FCAFC 26.
 - : Ignoring the context of applying for a patent in determining that patent knowledge was not allowable existing knowledge ("prior art").
- *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd (No 2)* [2007] HCA 21
 - : "led directly as a matter of course" inventiveness standard; disallowing knowledge of one type of lock to be deemed relevant to solving problems with another type of lock.
- *Sigma Pharmaceuticals v Wyeth* [2009] FCA 595.
 - : granting an injunction for a patent considered to be prima facie invalid without any consideration of the cost to Australian taxpayers of preventing generic entry for this expensive drug. The estimated cost of this decision to the Australian taxpayer is \$209 million.³
- *Bayer Pharma Aktiengesellschaft v Generic Health Pty Ltd (No 2)* [2013] FCA 279
 - : although alternative drug delivery forms had been well-known for many decades, this decision upheld the combination of a specific drug and a specific delivery mechanism as inventive (re-emphasised the "led directly as a matter of course in the expectation of success" doctrine).

The reason why an objectives clause is needed in the Patents Act is that judges clearly need better parliamentary direction as to the reasons behind patent policy and the limits (balance) that needs to be achieved. This will assist in ending such economically dysfunctional decisions.

Patent objectives clause: the proposals

The proposed objectives clauses each contain two elements: a statement of objectives and a balancing statement.

The objective statement

It is widely understood throughout the Australian community that patents are only for technological inventions. Even parliamentarians would probably be surprised to see

³ Alphapharm submission to Pharmaceutical Patent Review, 2013, p.6.

how far beyond technology judges have extended the reach (subject matter) of the patent system. No evidence has been required to support these major policy changes.

The technology focus of patents is also clear from the TRIPS Treaty, to which Australia is a signatory. Article 7 sets out the objectives of TRIPS in wording that clearly applies directly to the patent system:

"The protection and enforcement of intellectual property rights should contribute to the promotion of *technological* innovation and to the transfer and dissemination of *technology*, to the mutual advantage of producers and users of *technological* knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations." (emphasis added)

ACIP rejected the TRIPS objective as unsuitable for Australia, without providing any empirical or logical reasons to support its position. This was despite the Department of Innovation, Industry, Science and Research favouring an objectives clause based on Article 7. ACIP instead proposed a much vaguer objective – promoting Australia's national interest and enhancing the well-being of Australians. This objective statement could be seen as applying to any social, economic or cultural policy or program. It is so motherhood that it is useless in providing guidance to the Federal and High courts about patent policy in particular.

**The patent system has a direct and specific objective –
to induce inventions that would not otherwise occur.**

IP Australia comes closer to this in its alternative objectives clause which states that the purpose of the patent system is:

"to provide an environment that enhances the well-being of Australians by promoting innovation and the dissemination of technology."

This is still fuzzy round the edges. It avoids stating that the innovation which should be promoted is technological innovation. This is what parliament was advised in 2011.⁴ It is also important to note that a "granted patent can be a powerful exclusive right."⁵ If patents work at all to induce invention or innovation they do so through this powerful exclusive right. It operates as a direct incentive not as a factor that simply changes the environment.

**The following wording is proposed for the direct objective of the patent system:
"... to encourage technology-based inventions which would not otherwise occur"**

⁴ Parliamentary intent in regard to patent objectives is clear from the wording of the Explanatory Memorandum to the 2011 "raising the bar" amendment bill. This stated: "[t]he objective of the intellectual property (IP) rights system is to support innovation by encouraging investment *in research and technology* in Australia and by helping Australian businesses benefit from their good ideas." (p.8, emphasis added).

⁵ Explanatory memorandum p. 42.

The balancing statement

It is clearly not the objective of the Australian (or any other) government to promote invention at any cost, especially not with an incentive such as a patent – a legal right to restrict others from developing technology in the patented space. Because of this inherent contradiction – that invention and innovation can as easily be suppressed as encouraged – the issue of balance has always been central to patent policy.

But it is entirely inappropriate to specify this as:

"balancing the competing interests of patent rights holders, the users of technological knowledge, and Australian society as a whole" (Option 1).

Or

"balancing the competing interests of patent applicants and patent owners, the users of technology, and Australian society as a whole (Option 2).

The balancing of competing interests is an activity undertaken by executive governments and parliaments against the backdrop (at least in democracies) of putting the public good before any sectional interest. Where governments preference the interests of particular groups ahead of the public interest, trust in government drops sharply.

It is entirely inappropriate to put such a political statement into an act of parliament. This would be to bring our courts into the parliamentary process. Separation of powers is too important to be threatened in this way.

Further, either version of this balancing statement does little to help courts to interpret this important economic policy in a sound economic manner. Courts need to be instructed as to what issues need to be considered in ensuring balance between the goals of inducing invention and maximising competition.

Recalling that important initiative of the Howard Government, the Competition Principles Agreement, the underlying principle for legislative or regulatory intervention in markets is set out clearly. Article 5(1) states (emphasis added) that:

"The guiding principle is that legislation (including Acts, enactments, Ordinances or regulations) *should not restrict competition* unless it can *be demonstrated* that:

- (a) *the benefits of the restriction to the community as a whole outweigh the costs;*
and
- (b) *the objectives of the legislation can only be achieved by restricting competition.*"⁶

What are the relevant benefits and costs when it comes to the patent system?

The most significant social cost of patent systems is "the restrictions they put on the right to imitate new ideas" (Penrose 1951: 99). Not only can negative impacts on subsequent innovation create direct losses, but also – because innovation is cumulative, evolutionary and path-dependent – it can change the direction of future technological development.⁷ Such negative impacts on subsequent innovation is a concern that has

⁶ Competition Principles Agreement, available at <http://www.coag.gov.au/node/52>

⁷ Because of the general lack of variability between national patent systems, real world experiments and counter-factuals are rarely available to test the actual impact of patent systems. In one of the very small number of studies of differences in innovation behaviour between those resident in countries with patent systems and those resident in countries without them, Moser looked used a new dataset of close to fifteen thousand innovations at the Crystal Palace World Fair (1851) and at the Centennial Exhibition (1876) to examine the effects of patent laws on innovation. She found that the existence of patent laws

been raised by many (for example, David 1993; Macdonald 2004). A particular concern is the exclusion of new market entrants. Another is the acquisition and suppression by industry incumbents of patents for improved technologies which would disrupt existing markets. There are numerous examples of patents causing technological hold-up. Watt's steam engine patents delayed the progress of the industrial revolution by decades (Sell and May 2001). Patents impeded developments of radio and airplane stabilisation and steering in the USA (Merges and Nelson 1990). Cohen (2005) concludes that although the probability of such hold-ups might be small, the social cost if they occur can be very substantial. Policy therefore needs to be designed to avoid this risk.

When it comes to benefits the critical issue is spillovers. If new technology did not provide spillover benefits – benefits arising from the new knowledge embodied in the invention that become available to the community, including other innovative firms – there would be no economic rationale for the patent intervention. It would not matter that some invention did not take place if there were no spillover benefits. It is the spillover benefits from new knowledge that turns technological invention into an important driver of enhanced productivity and economic growth.

Thus it is these spillovers from new knowledge which provide the key to the critical balancing item in patent policy: patents should only be granted where the probable spillover benefits are likely to exceed the social cost of the grant (the restraint on competition).

Within patent policy as it currently stands, the best proxy for spillover benefits is the inventive step. While the correlation between spillover benefits and inventiveness is far from perfect, no other administrative variable in the patent system comes closer to proxying the desired benefit from the patent system.

Publication of patent specifications may possibly provide a conduit for the dissemination of the new knowledge. But if the granted patent contains no, or very little, new knowledge there will be no spillovers. No amount of publication of trivial patents will create the new knowledge that is missing from them.

The courts need to be aware that the point at which a patent system becomes dysfunctional – operates to reduce national economic wellbeing – is that where spillovers from new knowledge cease to offset the losses from the restraints on competition. Setting the fulcrum close to this level will balance the competing interests of users of technology with those of producers of technology. Users receive no *quid pro quo* if there is no new knowledge.

This balancing criteria can be clearly specified for an objectives clause in the patents Act. The objective of patent policy is to encourage technology-based inventions which would not otherwise occur:

"and which provide a significant advance over what is known or used in Australia."

This choice of wording comes directly from the Explanatory Memorandum to the Intellectual Property Laws Amendment (Raising the Bar) Bill 2011. In this the then the government clearly advised parliament that:

"A key principle of the patent system is that protection is only given for things that are *a significant advance over what was known and what was available to the public* at the priority date of the patent. A granted patent can be a powerful

changed the fields in which innovative activity occurred, but did not raise the overall level of innovation (Moser 2005).

exclusive right: as such, it is appropriate that the inventive step requirement be sufficiently stringent." (p. 42, emphasis added).

Patent objectives clause: conclusion:

Both option 1 and option 2 fail to achieve the desired purpose of introducing an objectives clause into the Patents Act. In both cases the goal specified is set out in such generic language that it effectively provides no guidance to courts. Further the balancing item is entirely inappropriate in an act of parliament and provides no useful guidance to judges.

A more appropriate objectives clause would be:

"the objective of the patent system is to encourage technology-based inventions which would not otherwise occur and which provide a significant advance over what is known or used in Australia."

An ordre public clause

Australian courts have been reluctant to invalidate patents on any of the grounds that attach to the definition of a patentable invention in the Patents Act.⁸ Yet the current statutory definition of a patentable invention was included in the major 1990 re-draft of the Patents Act and thus indicates parliamentary intent that this definition over-ride any subsequent case-based doctrine. Spelling out the kinds of things that should not be patentable on these grounds is therefore a sensible proposal.

The proposal is put forward as general rather than specific guidance as:

"an invention the commercial exploitation which would be wholly offensive to the ordinary reasonable and fully informed member of the Australian public."

It is interesting to consider how this wording would work when considering two types of inventions that would be generally offensive to ordinary Australians:

- methods of killing people, especially untargeted methods such as cluster bombs, or distance methods, such as drones; and
- methods of undermining the law, such as avoiding tax or avoiding legitimate debts.

In neither of these cases would the ordinary reasonable Australian be likely to be "fully informed", particularly if the courts interpreted "fully informed" as meaning informed about the technology. But one does not need to be fully informed about the technology to object to our government encouraging invention of either type. Both are generally antithetical to the running of a civilised and civil society.

Given the substantial experience we have had of lawyers turning patent law into a goldfield for semantics, just why is the phrase "fully informed" included as a qualifier? Does this mean that the opinions of Australians who are not "fully informed" don't

⁸ Section 18(1)(a) of the act defines a *patentable invention* as a manner of manufacture within the meaning of section 6 of the Statute of Monopolies. The Statute of Monopolies defines a patentable invention as "the sole working or making of any manner of new manufactures within this Realm, to the true and first inventor and inventors of such manufactures, which others at the time of making such letters patent and grants shall not use, so as also they be not contrary to the law or mischievous to the State, by raising prices of commodities at home or hurt of trade, or generally inconvenient" (emphasis added). Despite the fact that the Patents Act was totally redrafted in 1990, courts continue to preference the 1959 High Court NRDC decision (*National Research Development Corp. v. Commissioner of Patents* (1959) 102 CLR. 252) over the statutory definition. Effectively the NRDC decision has been interpreted by both Federal and High Courts as: a patentable invention is anything from which you can make a dollar.

count? We are not disbarred from voting if we do not know all the policies of all the candidates. We can take moral positions on the basis of fundamental principles, such as obey the laws of the land, including do not kill.

The "fully informed" phrase will also mean a great deal of resources will be wasted on legal argument.

Similarly the phrase "commercial exploitation" is not needed. The phrase is entirely redundant as the patent system is only about commercial exploitation. Patentees are not given any rights with respect to non-commercial exploitation. The issue is whether we agree our government should grant privileges for inventions of which we do not approve. Again this unnecessary phrase simply tips the playing field towards lawyers.

Further the phrase "wholly offensive" instead of "generally offensive" provides yet another example of the balance in patent policy being tipped towards commercial interests and away from the public interest. Either adjective will lead to substantial legal wrangling. While "generally offensive" would be an improvement on "wholly offensive" simple "offensive" would be an improvement.

I support the inclusion of greater assistance to courts to properly interpret the patent act definition of a patentable invention but it be rephrased as:

"an invention which would be offensive to the ordinary reasonable member of the Australian public."

The provisos in the definition of a patentable invention could also bear repeating in plain English and included in the list of inventions which are not patentable. These important provisos cover such things as;

- contrary to the law – which should be expanded to "could undermine the law ..."
- mischievous to the State – which could include whether patenting an invention will impose substantial additional costs on taxpayers (why would we such a policy?)
- hurt trade – which could be interpreted as having negative impacts on innovating businesses; and
- inconvenient – which does not need to be further defined – courts simply need to be encouraged to recognise that this is part of current patent law and that they should not ignore this proviso.

References

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Attachment: 2009 advertisement for ACIP members

Qualifications are stated in paragraph 3 and emphasise being a beneficiary of IP systems.

AFR
2-3 May
2009, p 8



Australian Government
Advisory Council on Intellectual Property

Expressions of interest for appointment

The Advisory Council on Intellectual Property (ACIP) is an independent body appointed by the Government. The Council advises the Federal Minister for Innovation, Industry, Science and Research on high level policy matters relating to patents, trade marks, industrial designs and plant breeder's rights, and the strategic administration of IP Australia. ACIP Membership reflects a cross section of interests involved with the intellectual property (IP) system, and usually includes individuals from both large and small businesses, the legal and attorney professions and academia.

A large part of the Council's work involves conducting reviews into various aspects of the IP system, and making recommendations to the Government to ensure Australia's IP system benefits all Australians. Further information on the Council's activities is available at www.acip.gov.au.

Expressions of interest are invited from persons who wish to be considered to serve on ACIP. The Government is seeking individuals with appropriate knowledge and experience in IP matters, including obtaining, managing, exploiting and protecting IP rights. The Government is particularly interested in hearing from owners and users of IP rights within the small, medium and large business sectors, and from public or private research bodies.

Appointments are usually for three years. The Council meets three times per year, and may form working groups for particular tasks, which meet as required. Members receive a daily sitting allowance and reimbursement for travel, accommodation and related expenses.

Expressions of interest should include relevant biographical details and a statement to indicate your experience, expertise and interest in the field of IP. Expressions close on **Wednesday 3 June 2009**, and should be sent to:

The Secretary
Advisory Council on Intellectual Property
PO Box 200
WODEN ACT 2606

or to frances.roden@ipaaustralia.gov.au

Additional information may be obtained from Kay Collins (02) 6283 2402

Source: Australian Financial Review, 2-3 May 2009: 8