

28 September 2015

***By email only***  
**consultation@ipaaustralia.gov.au**

IP Australia  
PO Box 200  
Woden ACT 2606

Attention: David Simmons PhD

Dear Mr Simmons

### **Innovation Patent System Review**

We refer to the IP Australia consultation paper of August 2015 (the “Consultation Paper”) regarding the recommendation of ACIP that the government consider the abolition of the Innovation Patent System.

#### **1. Professional Background of Stephen Krouzecky**

This submission is made by Stephen Krouzecky on behalf of Krouzer IP.

I have been in the Australian patent profession for more than 37 years. I originally started in the profession as a technical assistant for the firm RC Wray and Associates in Perth in 1978, now Wrays, and am currently practising as a patent and trade marks attorney for Krouzer IP, based in Sydney.

When I started in the profession, I spent most of my time conducting patent and trade mark searches for Wrays until I commenced sitting the examinations of the Board of Examiners of Patent Attorneys in 1981. My first subject was Patent Law, which I passed on my first attempt. Thereafter I started acting for clients in earnest under the supervision of my employer Reginald Wray and my superior at that time Errol Harwood, who was a registered patent attorney. Being based in Perth, the majority of Wrays’ work was sourced from local clients, and certainly at that stage of my career, I did not act for any overseas based clients.

By the time I passed the Board of Examiners of Patent Attorney’s examinations in 1985 and registered as a patent attorney in early 1986, at which time I also became a partner of Wrays, I had amassed reasonable experience in dealing with local clients and filing and prosecuting

patent applications for them in Australia and overseas, perhaps more so being based in Perth than would be the case if I was based in one of the larger firms in the eastern states of Australia.

I became a member of the International Federation of Intellectual Property Attorneys (FICPI) in 1988 and have attended all of the World Congresses of FICPI to date. I became a council member of the Australian Association of FICPI in 2000 and have been active at both an Australian and international level with FICPI since that time, serving as: Treasurer of the Australian Association from 2003 to 2009; Secretary from 2009 to August this year; and since August as the President of FICPI Australia. I also served a three year period from 2009 to 2012 as the President of the Training and Education Commission of the international body of FICPI during which time I was extremely active in the international activities of FICPI, including actively promoting the intellectual property system in Europe, Asia, Africa and South America, managing the working program of the FICPI Forums, and supervising the SEAD patent specification drafting courses conducted by FICPI in Southeast Asia and Europe.

I resigned from Wrays in 2008 and moved to Sydney to continue my career in the patent and trade mark attorney profession acting for the large US corporate IGT. During my time in Sydney, I worked in a senior capacity as a patent and trade marks attorney for the small firm Hodgkinson McInnes Patents from 2008 to 2010, the medium-sized firm Watermark Intellectual Property Attorneys from 2010 to 2013, and have been operating my own firm Krouzer IP since 2013.

I have been involved with the preparation of the joint submission between IPTA and FICPI Australia and have reviewed a draft of the nearly completed submission, which is due to be filed by 1 October 2015 after obtaining an extension of time.

Given the nature of the joint submission, I have decided to make this submission to make my personal views known, especially given that throughout most of my professional career I have dealt predominantly with independent part-time hobbyist inventors and SMEs, originally in Western Australia and now in Sydney for whom the Innovation Patent System was specifically intended to incentivise. Indeed, I think it would be fair to say that I have acted for well over 1000 of these types of clients throughout my career.

### **Petty Patent System**

Following the introduction of the Petty Patent System in July 1979 and before the introduction of the Innovation Patent System in 2001, I had considerable experience in dealing with the Petty Patent System and was familiar with its objectives stemming from the recommendations of the Designs Law Review Committee that in short was known as the Franki Committee. The Franki Committee: "... accepted that there was a need in Australia for a form of protection, particularly for small articles or simple 'gadget' inventions, that would be easy and inexpensive to obtain and could be obtained quickly.

“They concluded that what was needed was basically a system that had most of the features of the existing patent system but which offered, for a relatively short term, a form of protection that was inexpensive and quick and easy to obtain.”<sup>1</sup>

I think it is fair to say that the Petty Patent System was not a success for two simple reasons. The major reason in my opinion was one of cost and the secondary reason was perceived value for money. Essentially, the Petty Patent System had the same requirement for patentability as did a Standard Patent, apart from a restriction as to the prior art base – Petty Patents having a local novelty requirement but not an absolute one, whereas Standard Patents had what was known as relative novelty, i.e. having an absolute requirement in relation to prior published documents, but only a local novelty requirement for prior use. At that time pre-Internet, the prior art base distinction between Petty Patents and Standard Patents would have been greater than would be the case if the same situation applied today, however, the majority of searchable prior art in the form of published documents was actually available in Australia back at that time, so the difference in prior art base had no real practical effect from a professional perspective such as my own.

Given that scenario, the cost involved with preparing, filing and prosecuting a Petty Patent application with full examination through to grant, was not that much different to the costs involved with prosecuting and obtaining a Standard Patent. So logically, the fact that a patentee would have a lesser term and a reduced number of claims actually meant that the patentee was at a disadvantage to obtain a Petty Patent than if they were to obtain a Standard Patent, with the requirements for patentability and the cost involved, effectively being the same in either case.

### **Innovation Patent System**

The objective of the Innovation Patent System has been singularly identified in the various papers “... to stimulate innovation in Australian SMEs, and in a manner not possible through a standard patent or petty patent... It aims to do this by offering a relatively quick and inexpensive form of IP protection for lower-level inventions when compared to standard patents. This is to help encourage SMEs to develop and market these lower-level inventions in Australia. The innovation patent system provides substantially the same scope of protection as the standard patent, but it requires a low inventive threshold and has a maximum of eight years, compared to a 20 year term for a standard patent.”<sup>2</sup>

With respect, the objective is unduly idealistic and suffers from a misapprehension of what constitutes innovation and what stimulates innovation. Innovation is a creative faculty, and certainly from my experience, has more to do with the individual creative thinker, rather than any commercial stimulus.

It never ceases to amaze me that quite high level and successful executives can have a distinct lack of innovative ability but are extremely good at management, implementation and

---

<sup>1</sup> "Review of the Petty Patent System" Advisory Council on Industrial Property dated 28 August 1995

<sup>2</sup> "Consultation Paper: ACIP's Recommendation on the Innovation Patent System" IP Australia dated August 2015

commercialisation strategies. The reverse can be said for extremely creative individuals, who can come up with genius solutions to problems, but lack communication skills and are quite inept at management, implementation and commercialisation of their innovations.

My views are only based on anecdotal evidence, however I believe there is much psychological and neuroscientific evidence to suggest that the basic premise on which the policy objective is based is flawed. Therefore I do not consider it proper that a decision be made to either retain or abolish the Innovation Patent System based on whether economic data can attribute stimulation in innovation in Australia by SMEs based upon filing numbers of innovation patents by SMEs and their outcomes.

If stimulation of innovation is a desired objective, then I suggest that alternative research be undertaken in the innovation space to see what drives innovation and look at initiatives such as design thinking, creative thinking and the ideation process.

If it is desired to ascertain whether the Innovation Patent System is working and/or serving a purpose in the Australian economy, then I think it more appropriate to look at what the function of the patent system is as a whole and its utility to innovators who happen to be independent inventors and SMEs, being the major source of Australian business innovation in this country.

From my experience, the patent system primarily assists innovators in obtaining “rights” to their inventions/innovations, where these rights can be used:

- to commercially exploit the innovation to assist in commercialisation of the product or process,
- for enforcement against infringers to protect innovators from copying, where the copier does not have to incur the costs of research and development and commercialisation costs to enter the market, and
- to provide alternative income streams for independent inventors and researchers by way of technology transfer agreements in a market dominated by established industry in which an individual or SME could not possibly compete.

The relevant question in my opinion is whether the Innovation Patent System is fulfilling its role in providing “rights” to individual inventors and SMEs in an easier and less expensive way so that they are able to exploit their innovations if possible in an easier and cost-effective way than relying solely upon obtaining a Standard Patent.

I think the economic evidence overwhelmingly supports the conclusion that the Innovation Patent System is achieving this purpose.

### **Patent Strategy**

As a professional providing advice in patent strategy, I think it is important to emphasise that the Innovation Patent should not be considered in isolation from other IP laws. When advising a client who has come up with an innovation, it is important to take a holistic view across the entire intellectual property regime to determine what “rights” can be obtained or created and how these may best be exploited.

On the patent side of things, several factors come into play. These include the length of the term that can be obtained, so that the innovator is in an optimum position to obtain a real turn on their investment. Regardless of the altruistic persona being imposed on individual inventors and SMEs being interested in short-term rights, the reality is that achieving longevity of the exclusive right to maximise profit and thus justify the investment in commercialising an innovation is the norm. Business and legal strategy dictates that deferring public disclosure of the invention in a documentary form to keep competitors from adopting similar technology when the innovator is at their most vulnerable position financially, is an imperative. Both of these considerations mitigate against filing an innovation patent application in the first instance.

Therefore a proper patent strategy for any type of innovator, would recommend seeking to obtain an additional year to the effective term of the patent by filing a provisional application in the first instance. Filing such an application also avoids immediate publication of the innovation, which is desirable so that the innovator may be in a position to defer costs and generate investment capital to exploit the invention. It also delays the decision to be made on whether to file a complete application for a standard patent or an innovation patent.

Clearly having up to 20 years to exploit an invention with exclusive rights is more valuable than having 8 years. Whilst it is very nice in theory to think that individuals should be able to and want to exploit their innovation within an 8 year period, the reality is far from the theory. An investor will want to maximise their return, and if this can be done over 20 years rather than 8 years, then clearly it is in their interest to attempt to obtain the 20 year term, especially if filing and progressing through the Standard Patent application process is protracted.

The comparatively minor costs involved with obtaining patent protection contrasted with manufacturing and commercialisation costs and the existing mechanism whereby one can divide or convert from a standard patent application to an innovation patent application but not vice versa, means that only in the exceptional circumstance would an innovation patent application be filed at the complete application stage, instead of a standard patent application.

Therefore from a strategic perspective, in my view the economic data simply reflects the reality of the situation, where an innovation patent application will in the vast majority of instances will only be filed after an attempt has been made to obtain a standard patent, and that attempt is unsuccessful.

This does not mean that the Innovation Patent System is not useful. What it does is actually reinforce the Standard Patent System. Overall, it functions as a strategic tool, making filing patent applications more viable and an imperative for those wishing to commercialise an innovation. It functions as a backup IP right when attempts to obtain the more valuable Standard Patent from a longevity perspective have failed, or to provide stronger IP rights to reinforce the standard patent when its validity may be in doubt

### **Commercial Viability**

In my experience, it is a rarity for an innovation/invention to not be pursued because it cannot be patented. In reality, the majority of innovative products and processes that are being successfully commercialised in the Australian market are not the subject of any patent

protection. They are successfully being commercialised because there is a market for the product or process. Thus having a patent is only a tool to assist in the commercialisation process. Certainly the Innovation Patent System may help to incentivise innovation, but that is not and should not be its sole purpose.

In my opinion, the reason why most innovations are not pursued is because they are no longer or have never been commercially viable. The fact that an innovation patent is granted automatically, actually takes the patentability of the innovation out of the equation, so it is a nonsense to suggest that innovations are not pursued because they cannot be patented.

The economic data by indicating the high failure of innovation patents to continue after the first four years, simply reflects the fact that the innovation/invention is no longer commercially viable. This is more a reflection on the reality that most people in commercialisation circles know, and that is that the barrier to success is largely the cost of commercialisation and the preparedness of individuals and business to take on that risk.

Most commercialisation data indicates that an innovation/invention starting out from the point of creation and the filing of an initial patent application will take 3 to 5 years to determine whether it is commercially viable and sustainable. So the economic data does no more than reflect the realities of the commercialisation process, and that patent rights and applications for them are only kept alive whilst the innovation/invention is commercially viable.

As much as practitioners in the area would like it to be the case, patents do not guarantee commercial success, they are only a tool to assist an otherwise commercially viable innovation, in becoming commercially viable and successful.

As a tool from a patent professional's perspective, the Innovation Patent System combined with a Standard Patent System is far more cost-effective and reliable than having a Standard Patent System per se. The trade-off between duration and the threshold to patentability, in my view is reasonable. For maximum return on investment, it is important for an innovator to try and obtain the 20 year term, however in order to be able to obtain the 20 year term the innovator has to have an invention that is patentable and not obvious, not simply innovative.

Having an 8 year term is a serious impediment on return on investment to an innovator, but having the lower threshold of an innovative step compensates for this in some way.

### **Economic Data**

Given that inventors and SME's who obtain professional advice would rarely be filing an innovation patent at the outset, and may not end up choosing to obtain an innovation patent at all once they were successful in obtaining a standard patent or ascertained that the innovation was not commercially viable, does not mean that the Innovation Patent System does not serve a useful purpose.

The problem is that the economic data reflects the unfortunate fact that the large percentage of filings from SME's and individuals who do file innovation patent applications at the outset, have done so without receiving professional advice.

The light of this, I think it highly inappropriate that an important policy decision recommending the abolition of the Innovation Patent System be based on economic data reflecting on the filing activities of the ill-informed, who generally cannot afford or are not prepared to accept professional advice before going down a patent filing path. It is logical for such persons to choose the option of least resistance, arguably very much to their commercial detriment down the track, and which would indicate why there is a high level of failure of these applications/patents not continuing.

### **International Perspective**

I am aware that FICPI has been considering whether it should support the existing utility model system in various countries around the world, and if so, what should be done to improve it.

I am aware that a resolution of FICPI was agreed to in 1997 after the member states of the European Community considered producing a draft Directive to harmonise national laws on utility model protection. A copy of this resolution is enclosed.

As you will note, the resolution is based more along harmonisation lines that are consistent with the existing Innovation Patent System in Australia. More importantly, it does indicate that even though the Directive did not proceed for political reasons, there is a view amongst a majority of European countries who were supporting the Directive that the utility model system was valuable and would be even more valuable if it was harmonised throughout the European Community.

Statistical data obtained from WIPO indicates that there is an increasing trend in the use of utility models in those countries that have such systems including the Innovation Patent System. A copy of Figure A.13.1.1. taken from the WIPO Statistics Database, October 2012 is enclosed.

My own practice with SME clients in recent times reflects this trend. I believe this arises from a growing understanding of the need for obtaining patent rights outside of Australia in order to optimise the return on investment in commercialising an innovation/invention and the ability to achieve this cost-effectively by using the utility model system in those countries that provide for such. I think one of the reasons why the utility model system has not been exploited to the same extent previously by Australian SMEs is due to the lack of harmonisation of the system around the world compared to the Standard Patent System and the difficulty in establishing a filing strategy to exploit the same.

The fact is that there is not a lot of information available concerning utility model systems of different countries and that to obtain such information involves clients incurring relatively considerable expense. Once the information is accumulated, however, it is possible to develop a utility model filing strategy that is much more cost-effective than a standard patent filing strategy, which for the right innovation/inventions, is easier to exploit.

So if the professional is prepared to promote the system more when advising clients at the appropriate time, then naturally the use of the system on an international basis will increase.

This should see a reciprocal effect with the use of the Innovation Patent System by overseas filers in a similar predicament

My understanding is that FICPI recognises this and charged its work and study group CET 7 to produce a position paper on the subject, which was approved at its World Congress in South Africa earlier this year. A copy of the position paper is also enclosed.

The paper shows that the question of utility model/innovation patents has undergone intense study over many years to arrive at an objective position on the subject encapsulated in the General Statement at page 2 of the paper: "... **FICPI believes that a utility model system in addition to a patent system is beneficial to an effective IP system by providing a tool by which a meaningful and enforceable right can be quickly achieved for inventions**".

The FICPI perspective is important as it highlights the fact that the utility model/innovation patent system can serve an important role in addressing the global problem of the backlog encountered in the granting of patents in most jurisdictions around the world.

IP Australia has been at the forefront in joining with the rest of the IP world in identifying the backlog as a serious problem and needs to be addressed. It has been an important player in piloting and evolving the Patent Prosecution Highway as a means of addressing this.

From my perspective, the Innovation Patent System is another example of where Australia has been at the cutting edge in introducing an innovative system to support and supplement the Standard Patent regime, which can be used to address the backlog problem and be a very effective model for harmonisation of the utility model system throughout the world. Indeed, the parallel between the FICPI recommendations and the existing Australian Innovation Patent System is striking and not coincidental.

In the light of this, I think it highly detrimental for Australia to abolish a system that has been derived from its own policy initiatives to support not only local innovation from independent innovators and SMEs, which is the backbone to Australia's ability to exploit the knowledge economy on which it can competently compete in the global marketplace, but also is now being seen as a valuable tool to use in addressing the acknowledged infrastructure limitations that support the Standard Patent regime internationally.

The important theme of the FICPI position paper is fairness, balance and benefit to society and it would seem that the Australian Innovation Patent System fulfils these important fundamentals.

Whilst there may be some aspects of the current Innovation Patent System that could be improved, I think it important for government to undertake some tweaking of the system to improve it, rather than to abolish the system outright, which would seem to be going against international IP machinations at the present time in this sphere. In this light, I would make the following observations over aspects of the system that I think are good and should be maintained, in contrast to aspects of the system that I think can be improved.

1. The aforementioned trade-off between term and threshold of patentability is important, and I believe has been under-emphasised in the consideration of the Innovation Patent System. The current 8 year term for Innovation Patents versus the 20 year term for Standard Patents, I think is about right, although perhaps a 10 year term for Innovation Patents may be more equitable.

If there is a fear about larger overseas corporates dominating the use of the Innovation Patent System, I think this has been exaggerated. It certainly is not supported by the economic data.

In my experience large corporates employ complex patenting strategies which have a longer term objective. 8 years is too short a time period for a larger corporate to achieve their longer term objectives and so their ultimate focus will be on obtaining Standard Patent control of an innovation/invention. Innovation Patent protection would only be employed as a supplementary strategy.

Furthermore, larger corporates are more concerned about using patents in strategies to compete against other larger corporates competitors and generally are not concerned about the activities of individual inventors and SMEs.

Local independent innovators and SMEs, in my view, need all the help they possibly can receive in establishing IP rights in order to compete in a marketplace that is dominated by foreign IP ownership of large corporates. If an Innovation Patent System can help provide some assistance for an SME to enter and exist for even a small period of time in the local market, then it should be strongly supported.

2. In order for the Innovation Patent System to be viable against a Standard Patent System it cannot have the same threshold of patentability. The Petty Patent System failed for this reason, and I can see no point in returning to a system that has already proven to be a failure.

Whilst in its day the old Griffin v Isaac's test for novelty that has been paraphrased as the innovative step test under the Patents Act, had merit, it was out of kilter with the international trend of simplifying novelty and making the inventive step test more utilitarian. At the end of the day it was a novelty test and is now functioning as the innovative step test. Perhaps there is a view that the threshold of the innovative step test is too low, being ostensibly an enhanced novelty test and that this should be elevated.

In my personal view, I think the previous 3M v Beiersdorf obviousness test is too high a standard, and instead a change of emphasis on viewing the contribution made by the claimed innovation by reference to the prior art base, rather than the contribution to the mere working of the innovation is more realistic. This also keeps the Innovation Patent System more in line with other Utility Model Systems around the world, and would seem to address the gap that exists in providing more practical protection than that provided under the Designs Act and the comparatively high standard inventive step test for Standard Patents.

3. In terms of patent eligible subject matter, I consider that in order to be complementary with the Standard Patent system, so as to supplement and support it in situations where the Standard Patent system is too cumbersome or is fulfilling an alternative strategic goal, the same types of subject matter should be available for protection under the Innovation Patent System. This is also important for ensuring relevance to where local independent innovators and SMEs are actually innovating in the marketplace.

I consider Australia to be a world leader in the development of innovative processes and systems for Internet based services, and has a sophisticated consumer market in this area. It also has a sophisticated research and development foundation in the universities and innovation hubs focused on high technology, especially life sciences and medical research. Consequently, it is no coincidence that there has been a shift in hard industry research and innovation to softer industry research and innovation during the past two decades, where Australia sees its future as a knowledge-based economy.

I think it is important that the patent system keep in synchronisation with where innovation is happening in Australia. Curtailing the Innovation Patent System in any way to exclude important research and technologies from its patent eligibility base would be detrimental to it being a leading knowledge-based economy.

Whilst I can understand the imperative for competition, it is fallacious to think that a country with a relatively small population and a high standard of living in an isolated part of the world can possibly compete with larger populated economies with lower standards of living in competitive manufacturing, where there is no regard for preserving IP rights, no matter how innovative these rights are.

Therefore I think it important to resist those interest groups that laud the exclusion from patentability of the very innovations that are the nub of a knowledge-based economy, as I do not consider this to be in our national interests.

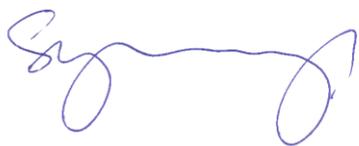
4. In so far as the granting of IP “rights” are concerned arising from the mere filing of an innovation patent application, I do believe that this is confusing to the public and innovators alike. Rather than the initial filing of an innovation patent application leading to grant, I think it more appropriate that alternative terminology be used which does not convey that an actual right has been granted. For example, the term “certificate”, or such other benign term may be appropriate, and that it is only after, for example, the “innovation certificate” has been examined that it be the subject of the grant of an “Innovation Patent”.

## Conclusion

I am firmly of the view that the Innovation Patent System is a valuable system that plays an important role in the overall patent system as an economic and competition regulating tool. Its utility needs to be viewed in the right perspective as working in conjunction with the Standard Patent System, and not as an isolated element that lives or dies on its ability to incentivise innovation amongst independent inventors and SMEs.

It is important for Australia to retain the Innovation Patent System and further develop it as a model for harmonisation and integration with existing utility model Systems around the world to provide a viable second tier infrastructure globally that can support and relieve the pressure on the existing patent system, reducing barriers to entry to the global marketplace that all independent inventors and SMEs face, whether in Australia or overseas.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'S. Krouzecky', with a long horizontal flourish extending across the middle.

Stephen Krouzecky  
Principal

Encl: FICPI Resolution 1991  
WIPO Trending data  
FICPI CET 7 Position Paper