

Communications, Entertainment & Technology
Committee

Consultation on the Advisory Council on
Intellectual Property's (ACIP) recommendation on
the innovation patent system

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Submission to IP Australia

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The NSW Young Lawyers Communications, Entertainment & Technology Law Committee (**Committee**) makes the following submission in response to the Consultation on the Advisory Council on Intellectual Property's (ACIP) recommendation on the innovation patent system.

NSW Young Lawyers

NSW Young Lawyers is a division of the Law Society of New South Wales. NSW Young Lawyers supports practitioners in their professional and career development in numerous ways, including by encouraging active participation in its 16 separate committees, each dedicated to particular areas of practice. Membership is automatic for all NSW lawyers under 36 years and/or in their first five years of practice, as well as law students. NSW Young Lawyers currently has over 15,000 members.

The NSW Young Lawyers Communications, Entertainment & Technology Law Committee aims to serve the interests of lawyers, law students and other members of the community concerned with areas of law relating to: information and communication technology (including technology affecting legal practice); intellectual property; advertising and consumer protection; confidential information and privacy; entertainment; and the media. As innovation inevitably challenges custom, the Committee promotes forward thinking, particularly about the shape of the law and the legal profession as a whole.

The views expressed in this submission should not be taken to represent the views of authors' employers.

Summary of Recommendations

1. The uncertainty in the market created by innovation patents receiving potential protection without being certified needs to be addressed.
2. Consider finding alternative systems to incentivise small to medium enterprises (**SMEs**) to engage with the intellectual property system.
3. Implement changes to avoid compromising the quality of innovation patents by reviewing thresholds of innovation patents (such as raising thresholds).
4. Consider introducing a three-year time limit for innovation patents to be certified.

Background

This submission is made in the context of two recent reports that question the efficacy of the Australian innovation patent regime, namely the Advisory Council on Intellectual

Property's *Review of the Innovation Patent System*¹ (**ACIP Report**) and IP Australia's *The Economic Impact of Innovation Patents*² (**IPA Report**).

The Committee draws on the datasets contained in both the ACIP Report and the IPA Report in this submission. In light of evidence indicating that innovation patents are not fulfilling their stated objective of encouraging research and development (**R&D**) on the part of SMEs, the Committee supports the re-evaluation of the innovation patent system by IP Australia.

The first part of this submission outlines what the Committee considers to be the main problems with the current Australian innovation patent regime. These problems include the presence of uncertified innovation patents in the Australian market, the lack of repeated use of innovation patents on the part of SMEs, and the potential for misuse of the system caused by the low threshold of innovativeness required for patents. The second and third parts of this submission evaluate the ways in which the current system might be amended, and offers alternatives.

The Committee reiterates its support for the standard patent system. The Committee also supports the policy objective underpinning innovation patents, being the creation of intellectual property rights that are accessible to persons other than large corporations and governments.

1. Current issues with innovation patents in Australia

Uncertified patents create uncertainty

The Committee acknowledges the potential for issues in circumstances where innovation patents are granted upon application yet confer no legally enforceable rights until certification by the regulator.

This procedure was designed to reduce administration costs for the users of the innovation patent system, because innovation patent holders do not need to pay for examination unless or until infringement is threatened. However, the Committee notes that any increase in accessibility due to the automatic granting of innovation patents could be outweighed by the uncertainty stemming from the presence of unexamined patents in the market.

¹ Australian Council on Intellectual Property, *Review of the Innovation Patent System* (2015).

² IP Australia, *The Economic Impact of Innovation Patents*, Economic Research Paper 05 (2015).

Confronted with uncertified patents, competitors have scant information with which to predict whether they possess a sufficient degree of innovation for enforceability. Competitors may be deterred from introducing similar new products into the market, notwithstanding that the underlying technology of the existing products (purportedly protected as innovation patents) may ultimately not be certified.

The IPA Report makes clear that the majority of innovation patents remain uncertified, with only 18 per cent of applications eventually becoming enforceable.³ In 2012, out of approximately 1900 applications filed, only 329 were ultimately certified.⁴ The Committee also notes that the number of enforceable second-tier patents has actually fallen since the introduction of the innovation patent system in 2001, even though the number of second-tier patents (both certified and unexamined) has increased.⁵

The predominance of uncertified patents, and their concomitant market uncertainty, is a strong factor that should be considered by IP Australia when evaluating the current innovation patent system.

SMEs only moderate users of innovation patents

The Committee also notes that reduced transaction costs, resulting from the process of granting innovation patents automatically upon application, has done little to incentivise SMEs to engage with the intellectual property system.

The IPA Report found that only 23 SMEs have filed five or more innovation patents, with 74% filing only once, and 78% allowing their patents to expire early because the \$110-220 cost of renewal is seen as money thrown away.⁶ Large firms are far more likely to certify their patents than SMEs or private investors, with 44% of applications from large firms becoming enforceable, compared with only 17% on the part of SMEs and private investors.⁷

These figures show that the repeated use, and certification, of innovation patents is largely the province of large firms. As such, innovation patents do not appear to be successful in encouraging innovation on the part of SMEs.

The low threshold for innovation patent validity

In addition to the process of automatic grants, the Committee suggests that the low threshold of innovativeness required for patents to be certified serves to compromise the quality of innovation patents in Australia.

³ ACIP, above n 1, 13.

⁴ IP Australia, above n 2, 17 (Figure 4).

⁵ Ibid.

⁶ Ibid, 3.

⁷ Ibid, 21.

Presently, innovation patent holders must show that a person skilled in the relevant art would consider that the invention varies from the prior art information in a way that makes a substantial contribution to the working of the invention.⁸ It has been said that this threshold leads to a perception that “a lot of ‘poor’ quality, uncertified innovation patents are being granted” and that such grants are ‘devaluing’ Australia’s patent system.⁹

Alternative thresholds for innovation patent validity are explored below.

Misuse of innovation patents

The Committee also observes that the ease with which innovation patents can be obtained, stemming from the fact that unenforceable patents are granted automatically, together with the low threshold for enforceability once certified, renders innovation patents vulnerable to misuse.

For example, firms with low-quality inventions are nonetheless able to accumulate multiple (albeit potentially unenforceable) intellectual property holdings. The Committee notes that in one instance, the introduction of a Chinese government subsidy for the filing of patents in foreign jurisdictions coincided with approximately 230 innovation patents being taken out by Chinese entities in Australia.¹⁰ Corresponding increases were recorded in other countries.¹¹ Many of these patent holders offered no products or services in Australia, yet their patents may well have deterred others from making similar products available to consumers in the Australian market.

The Committee does not, however, believe that the current innovation patent system has led to the widespread use of patent trolling in Australia. Patent trolls, which are loosely defined as entities that own and commercialise patents but do not themselves provide products or services based on patented technology,¹² are less prevalent in Australian jurisdictions than in the United States of America. The absence of a presumption of validity in respect of Australian innovation patents, which makes infringement litigation more difficult to maintain, may account for this difference.

Thus, while there is not necessarily evidence supporting the notion that firms are utilising the low threshold for innovation patents to conduct predatory litigation or extract licensing

⁸ *Patents Act 1990* sub-ss 7(4) and (5).

⁹ ACIP, above n 1, 44.

¹⁰ Mark Summerfield, *Junk Patents dumped on Australia and Chinese subsidies rorted* (6 February 2013) Patentology <<http://blog.patentology.com.au/2013/02/junk-patents-dumped-on-australia-as.html>>.

¹¹ Mark Summerfield, *Chinese Junk Patents revisited: 2013 filings update* (12 January 2014) Patentology <<http://blog.patentology.com.au/2014/01/chinese-junk-patents-revisited-2013.html>>.

¹² Hayley Bowman and Grace Pead, 'How far does the term "patent troll" extend?' (2014 27(7) *Intellectual Property Law Bulletin* 200.

fees, some suggest that the threshold can be leveraged in order to amass patent holdings that are not used to provide products and services to the Australian market.

Research and development

The Committee notes the limited evidence that supports claims of innovation patents leading to more R&D on the part of SMEs. The IPA Report makes it clear that it is only in the manufacturing sector that there is a statistically significant positive relationship between innovation patents and R&D expenditure.¹³

This is to be contrasted with standard patents, where correlations between patent applications and R&D expenditure exist in the mining, manufacturing, professional, scientific and technical, education and training, healthcare and social assistance, and arts and recreation industries.¹⁴

Therefore, the primary goal of innovation patents – stimulating low-level R&D – is only being achieved in one industry amongst many. The Committee suggests a review of opportunities to allow other industries to benefit from innovation patents could be of significant value.

2. Potential amendments to the innovation patent system

Raising threshold to standard patent level

Given the problems the Committee has identified as arising from the low threshold for innovation patent validity, the Committee recommends that IP Australia consider suggesting an amendment to the legal test so as to make it more difficult to certify innovation patents.

One possibility that may be considered is an amendment to the *Patents Act 2009 (Cth)* such that the novelty requirement is the same between innovation and standard patents. However, to require second-tier patents to display an ‘inventive step’¹⁵ runs the risk of rendering such patents ineffective. The appeal of second-tier patents is that they are easier to obtain than their standard counterparts. SMEs often lack the funds required to produce technology constituting an inventive step when compared to the prior art base.¹⁶ If and when they attain this level of inventiveness, it is likely that applicants will opt for standard patents, which are longer-lasting.

¹³ IP Australia, above n 2, 10.

¹⁴ Ibid.

¹⁵ *Patents Act 1990* s 7(2).

¹⁶ ACIP, above n 1, 48.

Raising threshold to an intermediate level

It may also be possible to raise the threshold for innovation patents to an intermediate level, between the current test and the one that applies to standard patents. The ACIP Report recommended amending sections 4 and 5 of the *Patents Act* 2009 (Cth) so that the innovation patent threshold accords with the test espoused in *Minnesota Mining & Manufacturing Co v Beiersdorf (Australia) Ltd*¹⁷ (**Minnesota Mining**). If innovation patents are retained, the Committee suggests that such a test should be considered when developing any amendment.

In *Minnesota Mining*, the High Court held, in the context of standard patents, that products are inventive when, in light of common general knowledge within Australia, a non-inventive skilled worker in the relevant field would not consider the invention to be obvious. ACIP submitted that this test be re-purposed for innovation patents, so that a product will contain an innovative step when a non-inventive skilled worker would consider the patent to be non-obvious, in light of common general knowledge both within and outside of Australia.

As with the original test, the only part of the prior art base that is able to be taken into account when deciding whether the patent is obvious, is that which is shown to have entered common general knowledge. This curtailed version of the prior art base when compared to standard patents will account for the lower threshold attaching to innovation patents, because in deciding whether a product constitutes a step forward in the innovation cycle, a lesser amount of prior material may be considered.

As noted by ACIP, adopting the threshold from *Minnesota Mining* promotes certainty because potential patentees can draw on existing case law to predict the way in which the test will be interpreted and applied.

The Committee suggests that raising the threshold in this way may result in better quality products/technology being certified and less incentive for people to register uncertifiable innovation patents. However, the Committee acknowledges that such an amendment would do little to encourage SMEs to engage in R&D.

Introducing compulsory examination

The problems associated with uncertified patents, as previously outlined, could perhaps be addressed by providing for the compulsory examination of all innovation patents within a certain timeframe. Such a restriction would create an incentive for innovation patentees to certify their patents.

¹⁷ (1980) 144 CLR 253.

The ACIP Report recommended that innovation patents lapse after three years unless they are certified within that period.¹⁸ The Committee agrees that three years is a reasonable amount of time for unexamined patents to subsist, because it affords the applicant with ample time in which to decide whether or not an innovation has profit-making potential.

Although there is a danger that such an amendment may discourage some SMEs from applying for an innovation patent in the first place, if innovation patents are to be retained, then the Committee suggests that an amendment of this nature be considered by IP Australia in its recommendations.

3. Alternatives to the innovation patent system

Given the lack of evidence supporting claims that innovation patents are encouraging investment in R&D on the part of SMEs, the question arises as to whether there are more effective ways of encouraging low-level innovation (in comparison to standard patents) in Australia.

Amendments to designs law

One such alternative may be to augment the law of designs. Broadly speaking, designs legislation applies when the 'overall appearance of a product'¹⁹ resulting from its 'shape, configuration, pattern and ornamentation,'²⁰ is 'new and distinctive.'²¹ To the extent that a product's appearance is dictated by its function, its design is not registrable. The regime is thus aimed at protecting the aesthetic elements of a product as opposed to its utility.

However, if the *Designs Act 2003* (Cth) was amended such that a product could not be refused designs protection merely because elements of its appearance serve a purely functional purpose, then the design of low-level inventions could be registrable.²² While such protection would not attach to the technology itself, it would go a long way towards making it harder for a competitor to copy that technology, because they would have to do so without any visual element of their new product reflecting the original work.

The problem with this course of action is that designs law relates to the appearance of a product, and using it to protect function is in some ways a manipulation of the designs framework. The Committee notes that while this may assist in providing more cost

¹⁸ ACIP, above n 1, 13.

¹⁹ *Designs Act 2003* s 5 ('Designs Act').

²⁰ *Ibid* s 7.

²¹ *Ibid* s 15(1).

²² Proposed in the Designs Law Review Committee, *Report on the Law Relating to Designs - First Term of Reference*, Parliamentary paper No 1 (1973).

effective options to SMEs, the misappropriation of designs law in this way may not be the best method to address the concerns facing the current innovation patent system. The Committee submits that the underlying principle could be helpful if examined and implemented correctly.

Amendments to competition law

Another alternative to the innovation patent regime may be to amend competition law so as to provide for a general anti-copying tort. Such an amendment was discussed in the 2014 ACIP Report, though not ultimately recommended.

The Committee acknowledges that current competition and trade practices law does not fully prohibit the use of unpatented low-level inventions. Misleading and deceptive conduct under the Australian Consumer Law²³ is primarily targeted at misrepresentations about the nature of a product, and not at the copying of other products. Further, the common law cause of action for passing off concerns a vendor's attempt to associate its product with another product with which there is no actual connection. However, patent infringers rarely hold out that their products stem from the original patent holder.

Nevertheless, the Committee agrees with the 2014 ACIP Report, that an anti-copying tort is not appropriate. As can be observed from the multitude of inquiries into a statutory cause of action for breach of privacy,²⁴ the task of outlining the contours of a new tort is extremely complex. Regard must be had to whether such a tort would cover reckless and negligent infringement, whether defences of reasonableness, necessity or consent should apply, whether proof of loss is required and a myriad of other questions of design and implementation. In the Committee's view, any inquiry into the establishment of an anti-copying tort may unnecessarily delay the implementation of measures aimed at addressing the current problems with innovation patents.

The Committee also notes that an anti-copying tort has been rejected by the High Court. Deane J in *Moorgate Tobacco Ltd v Philip Morris Ltd and Another*²⁵ described such an action as 'inconsistent with the established limits of the traditional and statutory causes of action which are available to a trader in respect of damage caused or threatened by a competitor.'²⁶ Innovation patent reform should, as far as possible, align with existing principles of commercial law. To that extent, the Committee suggests that a general anti-copying tort should be avoided.

²³ *Competition and Consumer Act 2010* (Cth) schedule 2 s 18.

²⁴ NSW Legislative Council, *Serious Invasions of Privacy in New South Wales* (ongoing); List the inquiries (NSW Parliament; Australian Law Reform Commission, *Serious Invasions of Privacy in the Digital Era*, Report No 123 (2014); Victorian Law Reform Commission, *Surveillance in Public Places* (2010).

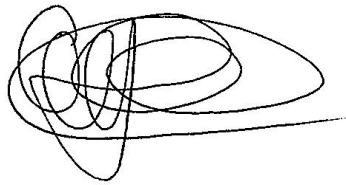
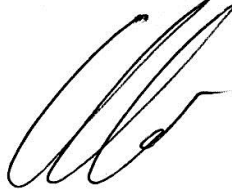
²⁵ [1984] HCA 73.

²⁶ .at [40].

Concluding Comments

The Committee submits that improvements to the current innovation patent system (rather than an abolition of it in its entirety) is an appropriate course. Improvements that may be considered include raising the threshold of innovativeness for innovation patents, and introducing time frames for certification.

NSW Young Lawyers and the Committee thank you for the opportunity to make this submission. If you have any queries or require further submissions please contact the undersigned at your convenience.

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