

SUBMISSION TO IP AUSTRALIA

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

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1. INTRODUCTION AND SUMMARY

This submission is made in response to the invitation from IP Australia to provide feedback on ACIP's recommendation that the government consider abolishing the innovation patent system. I make this submission on my own behalf, and based upon my own background and experience as an electrical engineer, software developer, inventor and patent attorney.

My submission is summarised as follows.

- ACIP's recommendation is based primarily upon an econometric cost-benefit analysis presented by IP Australia's Office of the Chief Economist in a report entitled *The Economic Impact of Innovation Patents* ('the *Economic Impact* report').¹ However, the available information suggests that ACIP had an inadequate opportunity, prior to its abolition, to conduct a proper detailed and critical assessment of the content of the report.
- The cost-benefit analysis indicates (among many other things) that Australian SMEs and individual inventors derive greater value from the innovation patent system when they are professionally advised and assisted in the application process. Furthermore, the system appears to have attracted a disproportionate number of inexperienced, unsophisticated, poorly-advised and/or unrepresented applicants. This suggests a potential problem with the way in which the system has been promoted. It also implies that professional advisors (i.e. patent attorneys) have a particular perspective on the Australian applicants deriving the greatest value from the innovation patent system.
- While the *Economic Impact* report considers the costs and benefits of the innovation patent system, it does not compare either of these with the available counterfactual scenario, i.e. the Australian patent system prior to introduction of the innovation patent in 2001. If such a comparison is made, it appears that the innovation patent system has been successful in increasing participation of innovative SMEs and individual inventors in the patent system.
- There are a number of questionable assumptions in the *Economic Impact* report that would benefit from closer consideration before the report's conclusions are used as a basis for any drastic decision regarding the fate

¹ Johnson *et al*, *The economic impact of innovation patents*, IP Australia Economic Research Paper 05, 2015. <http://www.ipaustralia.gov.au/about-us/what-we-do/economics/>

of the innovation patent system. Perhaps most significant among these assumptions is the treatment of uncertified innovation patents as being essentially worthless. There is no sound basis for this assumption, as a general proposition. On the contrary, there are circumstances in which an uncertified innovation patent may have greater value than a certified patent. In such cases, applicants may have been professionally advised **not** to proceed with examination and certification until such time as a need to do so arises.

- The *Economic Impact* report infers that large firms reap the greatest benefits from the innovation patent system, contrary to its policy objectives. There is little solid evidence for this inference and, in fact, a review of the cases in which innovation patents have been enforced in the Federal Court would lead to the opposite conclusion.
- ACIP has interpreted the *Economic Impact* report as finding that the innovation patent system actually **discourages** SMEs from subsequent use of the patent system. It is questionable that this conclusion can be derived from the report, and it is in conflict with a very basic analysis of the use of the patent system by Australian businesses generally. To the extent that ACIP's recommendation relies on this interpretation, it must necessarily be considered suspect.
- Before the drastic step of abolition is considered, there are a number of changes that could be made to the innovation patent system that may address the most significant issues and concerns raised in ACIP's earlier review of the system, as well as in the *Economic Impact* report. These include: raising the 'innovative step' standard; limiting the period over which damages or an account of profits may be awarded; reducing the patent term (e.g. to six years); eliminating injunctions as a remedy in cases involving infringement of innovation patents; and imposing an examination deadline (e.g. at two years from filing).

2. MY INTEREST AND QUALIFICATIONS

I have a Bachelor's Degree in Electrical and Electronic Engineering, and a PhD in optical fibre technology, both earned at the University of Melbourne.

I completed my undergraduate degree at the end of 1989, and during 1990 and 1991 I worked at the Research Laboratories of Telecom Australia (now Telstra Limited).

Between 1992 and 1995 I was involved in experimental and theoretical research within the Photonics Research Laboratory (PRL) at the University of Melbourne relating to optical fibre communications systems, leading to the award of my PhD in 1996.

I subsequently worked in a number of research and development, and intellectual property management roles, including three years with two separate high-tech start-up companies developing and commercialising technology spun-out of university research programs.

I am the first-named inventor on US Patent No. 7,233,962, *Optical Error Simulation System*, which was issued on 19 June 2007.

In late 2002 I commenced as a trainee patent and trade marks attorney with Watermark Patent & Trade Marks Attorneys ('Watermark') in Melbourne, Australia. In 2005 I was first registered as a Patent and Trade Marks Attorney in Australia and New Zealand.

I am currently Special Counsel with Watermark, and the editor and primary author of the *Patentology* blog², which covers current issues relevant to Australian and New Zealand patent applicants and practitioners. I am also a member of the Institute of Electrical and Electronic Engineers (IEEE)³. Much of my day-to-day practice involves assisting clients with the management and protection of intellectual assets relating to information technologies, including telecommunications technologies and software-implemented inventions.

My interest in Australia's intellectual property system, and the patent system in particular, is therefore not only as an advisor to my current clients, but is also based on my past experience in the development, protection and commercialisation of innovative new technologies.

3. ACIP'S RECOMMENDATION

ACIP's recommendation that the Government should consider abolishing the innovation patent system is based primarily on the cost-benefit analysis in the *Economic Impact* report. In particular, ACIP has stated that:

The report estimates that the private value of innovation patents is of a similar magnitude to the regulatory costs incurred (in the low tens of millions of dollars per annum). ACIP agrees with the finding in the report that the private gains from innovation patents are likely to be

² <http://blog.patentology.com.au>

³ <http://www.ieee.org>

offset by the uncertainty costs to consumers and producers. In view of the newly available evidence, ACIP considers that, taking into account the overall costs and benefits of the system, it is likely to result in a net cost to society.

The former Chair of ACIP, Professor Jim Butler, confirmed in a comment on the *Patentology* blog⁴ that ACIP reached this conclusion at its final meeting on 3 March 2015, where:

Following a presentation on the Report by two of the authors, Council members discussed the Report at length. At the conclusion of this discussion Council members agreed that, given the new evidence contained in the Report, if the objective of the innovation patent system was to help Australian SMEs then the system should be abolished. ACIP also agreed that the Minister for Industry and Science should be informed of the Council's revised position and a statement should be published on ACIP's website.

In my opinion, this is a wholly inadequate basis for ACIP to revise its previous conclusions, which were the result of an extended period of study and consultation. The *Economic Impact* report contains a great deal of detailed analysis, and arrives at conclusions that are based on assumptions about the way in which SMEs innovate, operate and use the innovation patent system that have not been tested through any form of wider consultation with stakeholders. A presentation and discussion in the course of a single meeting is manifestly inadequate to properly consider all of the issues raised by the report.

4. THE COST-BENEFIT ANALYSIS

Before turning to the cost-benefit analysis that so influenced ACIP, I wish to summarise a number of useful findings from the *Economic Impact* report.

- ‘... firms that apply for patents spend more on R&D than firms that file no patent applications. These results are statistically significant at the 5% level for standard patent applicants in the mining, manufacturing, professional, scientific & technical services, education & training, healthcare & social assistance and arts & recreation services.’ (Page 10)
- ‘...firms filing innovation patents in the manufacturing industry claimed to spend an average of \$2.584m more on R&D than firms that filed no innovation patents.’ However, no evidence is found of a specific

⁴ <http://blog.patentology.com.au/2015/08/ip-australia-has-innovation-patent-in.html#comment-2183717345>

correlation between R&D expenditure and filing of innovation patents in other sectors. (Page 11)

- There is a positive correlation between survival of companies and their filing of innovation patents. There is, however, an even greater positive correlation between survival and the filing of standard patent applications, which increases even further for standard patents that have actually been granted. (Page 13)
- The total volume of innovation patent filings is low. Since its introduction, the proportion of innovation patents filed by Australian applicants has fallen (from 88% in 2001 to 68% in 2013 – page 9), although this remains much higher than the 10% of standard patent applications that are filed by Australian companies and individuals. Interestingly, however, **the number of innovation patents filed each year by Australian SMEs (as opposed to individual Australian inventors) appears to have grown steadily** since the innovation patent was introduced. (Page 15)
- The great majority (over 80%) of innovation patents are never examined and certified, and therefore do not result in enforceable rights. (Page 17)
- A significant majority (74%) of SMEs and individual inventors who have applied for an innovation patent since the system was created have never (or at least not yet) filed any further applications. (Pages 19-20)
- On the other hand, 15% of all SMEs and individual inventors (1385 applicants in total) who used the patent system during the study period started out with an innovation patent filing and went on to file one or more further applications for either innovation or standard patents. (Page 20)
- Most innovation patents are not maintained for their full eight year term, and many expire due to non-payment of the first annuity, which is due only two years after filing. (Page 22)
- Innovation patents are more likely to be maintained for longer if one or more of the following applies: the patent is owned by a large company; the patent is certified; the applicant used an agent (i.e. a patent attorney) to prepare and file the application; the patent was filed as a divisional of a standard patent application; the applicant is more experienced with the patent system. (Pages 23-24)

I note in particular the correlation between maintenance of innovation patents (which is considered a proxy for perceived value by the patentee) and the use of an agent to provide advice and assistance in the preparation and filing of

innovation patent applications. This correlation is important, from the perspective of this submission, because it implies that **patent attorneys (such as myself) do not see an unbiased sample of innovation patent applicants**. The individuals and SMEs that receive our advice and assistance are far more likely to be among those obtaining the greatest value from the innovation patent system.

Conversely, it is clear that there is a disproportionate representation of innovation patent applications (as compared with standard patent applications) filed by applicants without the benefit of professional advice or assistance.

The Cost-Benefit Analysis in a Nutshell

The *Economic Impact* report concludes that the private benefits of the innovation patent system are difficult to quantify precisely, due to a lack of suitable data, but are probably in the low tens of millions of dollars each year. These benefits must, however, be offset by the costs to third parties – i.e. the additional costs to consumers, and the opportunity costs to competitors that are restricted from acting due to the existence of IP rights.

The report further concludes that the regulatory costs of the system lie somewhere between \$5.8 million and \$17.4 million per annum.

On balance, therefore, it is difficult to determine whether the innovation patent system provides a net benefit in aggregate terms, and the report is equivocal on this point.

Most damningly, however, the report points out that while the greater part of the private benefit accrues to a minority of relatively larger entities, the majority of the regulatory cost is born by smaller companies and individual inventors who derive little or no private benefit.

It appears to be this conclusion that has significantly influenced ACIP to come out with its statement recommending that abolition of the innovation patent system should be considered.

A Practical Perspective

There is, it seems to me, a flaw in the economic impact analysis. The report assumes that the regulatory cost of the innovation patent system is evenly distributed across all applications. It is stated, for example, on page 29 that 'since large firms file 5.55% of all domestic innovation patent applications they absorb 5.55% of all administrative costs tied to domestic applicants.'

By the same token, however around 15% of all SMEs and individual applicants have seen sufficient value out of their use of the innovation patent system that they have gone on to file further innovation and/or standard patent applications.

In all, therefore, some 20% of all innovation patents may be obtained by small and large domestic applicants who perceive value in their acquisition. It may be inferred from other data, as noted above, that the vast majority (if not all) of the applications within this key group were filed with the benefit of professional advice and assistance.

Viewed from this perspective (i.e. that of a patent attorney with experience working primarily with Australian applicants/patentees in the key group that does ascribe substantial value to their innovation patents) the problem is **not** that innovation patents provide insufficient value to many domestic applicants. Rather, **the problem is that a significant proportion of innovation patents are obtained by small companies and individual inventors who derive no value from them whatsoever.** Many of these applicants are preparing and filing applications without the benefit of professional advice or assistance. Others are perhaps being advised inappropriately that they would obtain some value from an innovation patent. Still others may have legitimate reasons for filing, but have subsequently determined that the commercial opportunities for their innovations are more limited than they had hoped.

Whatever the case may be, it appears that most of the value in the innovation patent system is extracted from the 'top' 20-30% of applications/patents, while the cost of the system is assumed to be uniformly distributed across all applicants.

So if, for example, the 'bottom' 50% of applications were never filed, the regulatory cost of the system would be halved, while the total benefit would be substantially unchanged. That would present a very different picture of the value of the innovation patent system.

An alternative conclusion based on the analysis in the *Economic Impact* report is therefore that the innovation patent has been 'too successful' in attracting individuals and small companies into the patent system. For a significant minority of applicants – particularly, perhaps, in the manufacturing sector – it has achieved its objective of stimulating lower-level innovation, far too many innovation patent applications have been filed simply because the system is 'there'.

Failure to Compare with Available Counterfactual

The *Economic Impact* report presents a cost-benefit analysis of the innovation patent system, but does not explicitly identify any alternative scenario against

which this should be assessed. Implicitly, however, this must be a system in which innovation patents do not exist, whereby neither the benefits nor the costs of the system accrue.

In contrast with many attempts to perform econometric analysis of the benefits of the patent system,⁵ a comparable counterfactual scenario is actually available in the case of the innovation patent system. Prior to 2001, innovation patents did not exist. While the petty patent system was in effect at that time, it was barely used, which is why it was abolished and replaced with the innovation patent system.

A key finding of the report is that 74% of Australian SME or individual innovation patent applicants have never filed another patent application.⁶ In other words, since the introduction of the innovation patent some 26% of SMEs and individual inventors have used the system as a first step to further applications.

However, the figures for the year 2000 and earlier, before the introduction of innovation patents, show that only 20.0% of Australian SME or individual standard patent applicants had filed at least one more standard patent application.

In other words, the report's own data suggests that, as compared with the pre-existing system, the innovation patent has achieved some measure of success in bringing Australian SMEs and individual inventors into the patent system.

5. FLAWED ASSUMPTIONS?

In the previous section, I treated all of the assumptions made in the *Economic Impact* report as valid, and argued that **even if** the assumptions and resulting data are accepted as given, the report's conclusions (and ACIP's consequent recommendation) do not inevitably follow. On the contrary, a practical and realistic approach to the data, based upon consideration of the behaviour of the most 'serious' users of the innovation patent system leads to the alternative conclusion that a significant minority of innovation patents have been obtained by

⁵ See, for example, Lisa Larrimore Ouellette, 'Patent Experimentalism', *Virginia Law Review*, Vol. 101, p 65, 2015, esp. pp 80-84, available at: <http://ssrn.com/abstract=2294774>

⁶ In fact, the data in table *ipgod10204172015*, when limited to Australian SME or individual applicants, appears to indicate that 27.9% of innovation patent applicants have filed at least one more standard or innovation patent application, whereas 26.9% of standard patent applicants have filed at least one more standard or innovation patent application.

SMEs and individual inventors for whom the system appears to be achieving its objectives.

In this section I will discuss some of the report's assumptions, and argue that they **cannot**, in fact, be accepted without question. Further consultation and study is therefore required to validate the assumptions made in the *Economic Impact* report before it could be relied upon as the basis for such a drastic step as the abolition of the innovation patent system.⁷

The Value of Uncertified Innovation Patents

The data used in the *Economic Impact* report to estimate the benefits of the innovation patent system are taken a survey conducted by Verve Economics in which innovation patent owners were asked to estimate the value of their patents. The Verve results would indicate that the value of the approximately 1200 innovation patents filed by Australian applicants each year is somewhere between \$1 billion and \$5 billion. The report applies a number of discounts to the Verve figures to conclude that the respondents to the survey overestimated the value of their innovation patents by a factor of approximately 100, i.e. that the 'real' value lies in the range of \$10 million and \$40 million.

The largest of these discounts depends on **the assumption that innovation patents which have not been certified are essentially worthless.**

Not only is there no basis for this assumption, it is demonstrably untrue. In my experience as an advisor to SME and individual inventor applicants, the decision of any individual patentee as to whether to certify or not is based upon a variety of factors. Sometimes an applicant wishes to obtain an enforceable right rapidly, in which case they would typically request examination at the earliest opportunity. In other cases, there is no immediate need for enforceable rights, and examination may therefore be deferred. Under the present system, if no such need ever arises, the innovation patent need never be examined and certified.

It is ludicrous to suggest that an innovation patent 'magically' transforms from worthlessness to some higher value merely by virtue of certification. If this were so, then exactly the same reasoning should apply to all pending standard patent applications, which it plainly does not. The value of an uncertified innovation

⁷ For many of the following points I am indebted to John Gibbs, whose contribution to discussion on the *Patentology* blog addressed a number of the assumptions in the *Economic Impact* report:

<http://blog.patentology.com.au/2015/06/acip-says-abolish-innovation-patents.html#comment-2229793611>

patent, as for a pending standard patent application, depends upon the quality and commercial value of the underlying innovation, as well as the quality of the drafting of the patent specification itself. These characteristics can be, and often are, assessed independently of evaluation by a patent examiner, for example by conducting prior art searching and obtaining professional advice either prior to, or following, filing of the application.

The mere fact that an innovation patent is not (yet) certified thus provides no information in relation to its value.

Furthermore, there are inevitably cases in which the value of an innovation patent may be **enhanced** by the fact that it has not yet been examined and certified. For better or worse, the existing law permits amendment of the specification (subject to the conditions of section 102) – including, potentially, amendments to the claims that may broaden or ‘shift’ the scope of the patent, prior to and during examination. An uncertified innovation patent thus provides its owner – or a subsequent assignee or licensee – with flexibility that is not available once the patent has been certified.

The uncertainty associated with this characteristic of uncertified innovation patents has been identified by some as an undesirable feature of the existing system. I do not disagree with this position, however for as long as the law remains as it is, my duty to act in the best interests of my clients requires me to advise them of the benefits of delaying certification, and sometimes to expressly recommend that they do so. These benefits are enhanced by the fact that remedies (e.g. damages or an account of profits) are available back to the original filing date of the application, even if the scope of the certified right is not established until many years later.⁸ Furthermore, prior to the commencement of the *Raising the Bar* reforms, the former ‘fair basis’ test allowed patentees even more leeway in crafting claims to target subsequent activities of competitors (as exemplified by the *Seafood Innovations* case⁹).

It is therefore arguable that **an uncertified innovation patent can, in some circumstances, be more valuable than a certified innovation patent.**

The large discount applied in the *Economic Impact* report to the value of uncertified innovation patents therefore cannot be justified. It is clear that relaxing this ‘zero value’ assumption would significantly alter the cost-benefit analysis, and potentially lead to very different conclusions.

⁸ *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd [No 3]* [2012] FCA 1019.

⁹ *Seafood Innovations Pty Ltd v Richard Bass Pty Ltd* [2011] FCAFC 83

Do Large Firms Obtain Greater Benefits?

A key conclusion of the *Economic Impact* report is that larger firms reap greater benefits from the innovation patent system than SMEs. Specifically, the report states that:

The private value generated by innovation patents appears to be in low tens of millions of dollars, and this should theoretically accrue mainly to firms that maintain and certify their patents, of which large firms hold the greatest proportion.

There is, however, significant evidence suggesting otherwise:

Since 1 January 2010, there have been 51 patent infringement cases decided at first instance by the Federal Court. Of these 33 related to standard patents, 16 related to innovation patents and 2 related to both standard and innovation patents. Of the 16 cases which related to innovation patents, 12 of the patentees were Australian SMEs, 2 large Australian companies and 2 foreign companies. In the two cases involving both innovation and standard patents, the patentee was a large Australian company in one case and an Australian SME in the other. Of the 33 standard patent cases, 23 of the patentees were foreign companies, 2 large Australian companies and 8 Australian SMEs.¹⁰

It is notable that one of the two foreign companies in question is Apple, Inc. which was, for a period, the largest single user of the Australian innovation patent system.¹¹ It became apparent, as a result of subsequent events, that this was primarily an aspect of Apple's global strategy against its main rival in the the smartphone business, Samsung. I would therefore regard this particular case as an anomaly – had innovation patents not been available in Australia, Apple would simply have adopted its next best strategy, such as expediting examination of its corresponding standard patent applications.

Enforcement of innovation patents by foreign companies, or by large Australian companies, is clearly the exception rather than the rule.

¹⁰ John Gibbs, *supra*.

¹¹ Mark Summerfield, 'Apple's "Innovative" Australian Patent Strategy', IPWatchdog.com, 15 August 2012:

<http://www.ipwatchdog.com/2012/08/15/apples-innovative-australian-patent-strategy/id=27378/>

It is an open question why larger companies are obtaining and certifying innovation patents in significant numbers, if not for enforcement. This is a question that the *Economic Impact* report does not address – it simply assumes (without clear justification) that this is an indicator of value.

6. ACIP'S INTERPRETATION

In its statement revising its recommendations, ACIP says:

A key finding in this research paper is that Australian SMEs are less likely to use the patent system after filing an innovation patent than a company that has not previously filed an innovation patent. This suggests that innovative activity is not being stimulated among these groups by the innovation patent system.

It is not clear to me that this is an accurate summary of any 'key finding' of the *Economic Impact* report. However, to the extent that ACIP relied upon this interpretation of the report in reaching its conclusion, the statement must be rejected.

Firstly, as I have noted previously, compared to the pre-existing system it appears that the innovation patent system has provided a greater proportion of SMEs with an introduction to further use of the patent system.

Secondly, ACIP's above statement is evidently false. According to the Australian Bureau of Statistics, there are about 2.1 million businesses in Australia, of which only about 30,000 have ever filed a patent application. The likelihood of any Australian business (the majority of which are 'non-filers') filing a patent application is therefore less than 1.5%.¹² By contrast, as has already been discussed, at least 26% of individual inventors and SMEs go on to file one or more further applications after having filed an innovation patent application.

7. IMPROVING THE INNOVATION PATENT SYSTEM

ACIP's original recommendations included considering changes to the innovation patent system in order to address a number of legitimate concerns that had been raised. As discussed in the preceding sections, it is my view that the *Economic Impact* report does not justify ACIP's dramatic change in position to recommend abolition of the system. It seems clear that ACIP did not have sufficient time to consider the report in detail, and to examine critically its assumptions and conclusions.

¹² Again, I am indebted to John Gibbs for providing these figures.

Nonetheless, the *Economic Impact* report provides a potential baseline against which the effect of any changes to the innovation patent system may be assessed in future. Rather than abolishing the system altogether – which I believe would be premature, considering that ACIP’s review was the first since the innovation patent was introduced in 2001 – it would be preferable to make changes addressing some of the main issues that have been identified. The performance of the system could then subsequently be monitored against the baseline provided by the recent study.

I propose five changes to improve the innovation patent system by limiting certain social costs inherent in the current system, while maintaining many of the characteristics that make it attractive to SMEs and individual inventors. These changes are:

- raise the ‘innovative step’ standard (while maintaining it as a lesser requirement than for an ‘inventive step’);
- limit the period for which damages (or an account of profits) may accrue so that it is commensurate with the period of public notice as to the scope of certified innovation patent claims;
- reduce the maximum term of an innovation patent;
- prohibit the grant of an injunction as a remedy for infringement of an innovation patent; and
- impose a deadline for requesting examination of an innovation patent.

Each of these changes is discussed in greater detail below.

Raising the Innovative Step Standard

There is no question that the ‘innovative step’ standard is set too low. The Australian courts have expressly recognised that innovation patents can be validly certified, and enforced, despite the fact that they may be directed to objectively obvious developments.¹³

The innovative step standard should therefore be raised. It should not, however, be lifted to the same level as a standard patent. In opting for an innovation patent, rather than a standard patent, the opportunity must exist for an applicant to choose a shorter term of protection in exchange for a lesser standard of inventiveness. In many cases, inventions protected by innovation patents might (and sometimes do) qualify for standard patent protection. In this case, the benefit to the patentee is not the protection of an advance that would not otherwise be patentable, but rather a reduction in the difficulty – and therefore time and cost – of examination.

¹³ See, e.g., *Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225, at [53]

My preference for an innovative step standard that strikes an appropriate balance is the test for inventive step that applied under the *Patents Act 1990* as originally enacted. This standard required an inventive contribution, and not merely a 'substantial contribution to the working' of the patented product or process, however inventiveness was assessed against no more than one source of prior public information viewed in light of the common general knowledge in the relevant art. Combining information from multiple sources, unless shown to be part of the common knowledge or 'stock in trade' of workers in the field, was not permitted.

In practice, many inventions are improvements on existing products or processes, and their inventors arrive at them by consideration of how things might be made better. Such inventors do not have regard, at the outset, to all of the prior art that they might have found in a diligent search, and regarded as relevant to the matter. From the perspective of the inventor, an invention has been made, even though the law might ultimately determine that the particular contribution was not sufficiently significant in view of the totality of the pertinent prior art.

Using the 'single prior art source' test for innovative step would therefore better reflect the practical reality for most individual inventors and SMEs. It is a clearly justifiable standard from both a logical and policy perspective.

Restrict Period of Damages

As I have already mentioned, it is a 'quirk' of the innovation patent system is that a patentee is able to claim damages for infringement all the way back to the original effective filing date of an innovation patent.

This should not be permissible. A patentee should have a real incentive to settle on final claims early in the application process. As for standard patents, no relief (e.g. damages or an account of profits) should be available in relation to infringement during any period prior to the official publication of the claims that are ultimately certified and subsequently found to have been infringed.

Reduce the Patent Term

An innovation patent enables protection to be obtained more easily, and/or for inventions that would not meet the inventiveness requirements for a standard patent. The primary trade-off for the patentee is a shorter term of protection.

It is therefore clear that the nature of the trade-off between the 'innovative step' standard, and the term of protection, is a key policy lever for determining how, and by whom, innovation patents are used. Raising the step and reducing the term are both mechanisms to encourage inventors with a higher-level innovation to opt for standard patent protection.

Assuming that the innovative step standard is raised, careful consideration would need to be given to the extent of any accompanying reduction in term. My view, however, is that a return to the old petty patent term of six years would likely be appropriate.

No Injunctions

Currently, an innovation patent provides its proprietor with the full extent of enforceable rights granted by a standard patent, including the ability to block a competitor by obtaining an injunction against continued infringement.

In my view, there is a strong argument to be made for refusing injunctive relief in the case of innovation patents. If an inventor makes a 'lower-level' advance (or, at least, opts for a lower level of protection) they might well be entitled to the financial benefits that flow from this, including receipt of reasonable royalties if others wish to use the invention during the term of the patent.

However, given that a lower-level invention is more likely to be the kind of thing that someone else might have come up with independently of the patentee, there is a weaker case to be made for the grant of an injunction. The requirement to pay royalties already increases a competitor's cost base, which in many cases will be sufficient to enable the patentee to maintain an edge in the market.

Furthermore, eliminating injunctions for innovation patents would make them less attractive as strategic enforcement tools, particularly for large companies and foreign applicants. While it would remain possible to obtain a divisional innovation patent based on a pending standard application, as a rapid enforcement tool, an applicant requiring an injunction would be better off accelerating the examination of the standard application.

Impose an Examination Deadline

The *Economic Impact* report confirms a number of facts that are, in my experience, supported by the anecdotal evidence of patent attorneys who work with clients seeking innovation patents, including:

- over 80% of innovation patents are never examined and certified, and thus never become enforceable;
- most innovation patents are not maintained for their full eight-year term, and many expire due to non-payment of the very first annual maintenance fee, which is due just two years after filing; and
- factors that are associated with innovation patents being maintained for longer periods include: the patent is owned by a large company; the patent is certified; the applicant used an agent (i.e. a patent attorney) to

prepare and file the application; the patent was filed as a divisional of a standard patent application; the applicant is more experienced with the patent system.

All of this is consistent with innovation patents being more highly-valued, and more effectively used, by applicants that are more sophisticated and/or better advised. Poor quality innovation patents can be filed speculatively and at little expense by self-represented applicants. Such patents have little value and are unlikely ever to be certified.

The 'publicity' for the innovation patent, from its inception, has focussed significantly on claims that it is cheaper and simpler than a standard patent, and therefore more suitable for individual inventors and SMEs. While there is some truth to this, the fact is that any form of IP protection – and patent protection in particular – needs to be part of a broader business and IP strategy in order to be effective and valuable. It is therefore no surprise that sophisticated and well-advised applicants are deriving more value from the innovation patent system than 'casual' users.

Casual use should therefore be discouraged. The potential benefits of the innovation patent system will only be realised if its users have clear strategic goals. While it is reasonable for patentees to abandon patents covering developments that, ultimately, do not prove to be as commercially valuable as initially hoped, it would be beneficial for them to be compelled to commit, one way or another, at a relatively early stage in the term of an innovation patent.

I therefore consider that it would be reasonable for innovation patent owners to be required to request examination of their patents within a limited period after filing. In particular, I would abolish the second year maintenance fee (which currently triggers significant numbers of abandonments anyway), and replace it with a compulsory examination request deadline. Thus a patentee with an ongoing interest in an innovation patent would be required to pay an examination fee within two years, rather than the first maintenance fee. Subsequent annual fees would, of course, be payable to maintain any patent that survives examination.

8. CONCLUSION

In summary, I believe that it is premature to consider outright abolition of the innovation patent system. While the *Economic Impact* report provides some new and useful insights into the use and value of innovation patents by SMEs and individual inventors, its assumptions and conclusions have yet to be tested against real-world experience of relevant stakeholders. Hopefully the present consultation will contribute significantly to this process.

I have outlined a number of areas in which I consider the assumptions and conclusions of the report to be open to question. I have also raised my concerns that ACIP's consideration of the report, and its brief statement recommending abolition of the innovation patent system be considered, were made in haste, and without a proper detailed and critical assessment of its contents. This is not, in my view, a sound basis for such a drastic response.

My preferred option is to modify the innovation patent system to address some of the flaws that have become apparent during its first 14 years of operation. With appropriate changes, the system could potentially be targeted more directly at the Australian SMEs and individual inventors that are currently deriving the greatest value from innovation patents, while discouraging 'casual' use by those who will derive little value, and 'strategic' use by foreign applicants and larger Australian companies.

I therefore urge IP Australia to consider these alternative options. The innovation patent system has not been modified in any way since its creation, and it should therefore come as little surprise to anyone that it is imperfect and in need of some 'tweaks'. To abolish the system without first making efforts at improvement is unjustified. It should be kept in mind that abolition will itself come at a substantial cost, and will most likely be irreversible.

I thank IP Australia for this opportunity to provide input on the future of the innovation patent system, and hope that this may contribute to the development of robust and valuable reforms to the Australian intellectual property system.

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