

The fate of Australia's innovation patent - like the death penalty for jay walking

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Australia's second-tier innovation patent system is presently on death row. The government proposes, after public consultation, that provisions to phase out the innovation patent system included in the *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2018* (Cth) will remain in the Bill. With all appeal avenues seemingly now exhausted, this article explores the question - albeit somewhat academically, as to whether the innovation patent necessarily has to die - or whether it could be rehabilitated? In other words, whether the punishment fits the crime?

The fate of Australia's innovation patent – it's like the death penalty for jaywalking

Introduction

Around 15 months ago, the Australian Federal Government released its response to the Productivity Commission's inquiry into intellectual property arrangements in Australia. One of the headline features of the response was that the Government had agreed to phase out the innovation patent system. Whereas there appears to be a general acceptance throughout Australia's IP community that the innovation patent system may be somewhat imperfect, it did not necessarily follow that it was failing to meet its stated objectives - namely, to foster innovation amongst local SMEs. This article considers whether the Government may have over-reached in recommending a complete culling - could it be rehabilitated, or is euthanasia the only real option? If the latter holds true, patentees may wish to give some advance thought to availing of the innovation patent facility while it still exists.

What's happened over the past 15 months?

Champions of the innovation patent system have continued lobbying away in the background – and on occasion, the foreground. Throughout July to August 2018, IP Australia sought public comment on the Exposure Draft of the *Intellectual Property Laws Amendment Bill (Productivity Commission Response Part 2 and Other Measures) Bill 2018* (Cth). Among other measures, the draft legislation contained provisions to phase out the innovation patent system once and for all.

Six non-confidential submissions relating to the innovation patent system were received during the consultation process. In late October, IP Australia then published its response. It was noted that the "majority of the submissions did not comment on the drafting of the legislation, but expressed their continued opposition to the decision to abolish the innovation patent system". In response, IP Australia noted that "the decision to abolish the innovation patent system was taken by the Government, and that this consultation was directed towards the implementation of that decision. No significant new evidence on the value of the innovation patent system was presented by the submissions that had not already been considered by the Productivity Commission and the Government in reaching that decision". In other words, advocates of the innovation patent system had chosen the wrong forum in which to attempt re-opening the debate.

As we understand things, the Government remains keen to introduce the Bill before the end of the year. Parliament's final session for 2018 concludes on 6 December - and the small window available therefore stands as a test of its resolve to achieve a quick kill.

Innovation patents 101

From its introduction in 2001, the "innovation patent" has been held up as a symbol of the Australian Government's commitment to encouraging small to medium enterprises (SMEs).

The innovation patent is Australia's second-tier patent system. Novelty, written description and industrial applicability criteria are the same as for the first-tier "standard" patent system. However, in exchange for offering the public only an "innovative step" (a pseudo-novelty test requiring differences amounting to a "substantial contribution to the working of the invention"), a patentee is afforded only an 8-year term as opposed to the standard 20 years.

Proponents of the innovation patent system note that not all inventions are of the "Eureka" quantum leap variety befitting a standard patent. Rather, many are iterative - making slow but steady advances on what came before it. The argument is that such iterative advances may be "obvious" for the purposes of a standard patent, but still invite substantial RD&E expenditure on a patentee's part - and so why shouldn't the patentee be compensated with some measure of monopoly right?

Innovation patents are "granted" upon filing (a potential problem in itself, as we will see below), but are not enforceable at law until such time as they have been "certified" (examined). However, once certified, the enforcement remedies available to a patentee are the same as those for a standard patent. Thus, innovation patents - particularly innovation patents divided out from standard patent "parents", can be effective "litigation weapons" because the low innovative step threshold makes them somewhat difficult to revoke in a counter-claim for invalidity (and suing against a divisional innovation patent will not expose the parent standard patent to a revocation cross-claim). Thus, innovation patents provide a legitimate strategic tool for those looking to enforce their Australian patent rights.

So, what's the problem?

The perceived "problem" with the innovation patent is three-fold. Firstly, there has been a perception that local SMEs were not making use of the innovation patent system (and even if they were, they were not deriving tangible benefits from it). Secondly, that the "granted upon filing" status rendered the system susceptible to abuses such as foreign applicants potentially being able to claim Government subsidies in their country of origin for obtaining a "granted" patent. Thirdly, there has been a perception that the threshold test for innovative step (essentially a pseudo-novelty test, as noted above) was too low and that this, in turn, may give rise to a proliferation of difficult-to-revoke certified innovation patents that were enforceable at law. Ultimately, it was the first perceived problem that has been considered terminal.

Problem 1: Local SMEs are not making use of the system

This appears to be the primary justification for abolishing the innovation patent system. A 2014 review conducted by the Advisory Council on Intellectual Property (ACIP) had recommended – somewhat surprisingly at the time, that the innovation patent system be abolished. Following a protracted review process stretching back to 2011, ACIP eventually concluded by way of economic modelling that the innovation patent system was not meeting its stated objectives. Such objectives, of course, were to stimulate innovation in Australian SMEs by providing easier, quicker

and cheaper patent rights as well as an avenue to protect their lower level inventions – a patent system aimed at "backyard inventors".

Objectively, it appears that the data presented in the economic report may have been open to a number of interpretations, and that disproportionate weight may have been attributed to certain factors. For example, the fact that there are a relatively high proportion of self-filed innovation patent applications cloud the data relating to the calculated total regulatory cost of the system and the assessment of commercial success of innovation patent filing entities. This obviously has an effect on the concluded net economic impact, which appears to have been a major factor influencing the stand taken by ACIP. Notwithstanding, the Productivity Commission and the Australian Government have subsequently backed this position, which in turn, effectively sounds the death knell for the innovation patent system.

Problem 2: A "granted" patent for a wheel

An example of the shortcomings of the "granted upon filing" status was highlighted by way of innovation patent 2001100012, which was "granted" for a "circular transportation facilitation device" - a wheel. The facility to obtain a granted innovation patent for a wheel suggests that all is not well with the present system. Obvious "fixes" involve reverting to the "filed" status ascribed to a standard patent before such time as it has passed through examination, and/or requiring that every innovation patent application is to be examined within, say, 2-3 years of its filing date (at present, examination/certification is merely optional subject to the limitations in enforceability as mentioned above). Adopting either or both of these two very obvious solutions would ensure that a) nefarious claiming of Government subsidies would be reduced or eradicated; and that b) patents for wheels and the like will not clog the register of patents for the entirety of their 8-year term.

In fairness to IP Australia, they have since moved to exercise their powers of veto in revoking the wheel patent and several other clearly invalid or disingenuous filings. However, the facility to obtain a "granted" patent nonetheless remains for filings that don't present quite so easily during the standard formalities check.

Problem 3: The innovative step threshold

As noted above, the test for innovative step is essentially one of pseudo-novelty; this dates back to the decision of the Full Federal Court in *Dura-Post (Australia) Pty Ltd v Delnorth Pty Ltd* [2009] FCAFC 81 and requires an advance over the prior art that amounts to "a substantial contribution to the working of the invention". It is generally accepted that this test represents a very low bar and that the quid pro quo offered by the Government of an 8-year monopoly period invites something more on the part of innovation patent applicants.

In this respect, timing is everything. Indeed, Recommendation 7.2 of the Government response to the Productivity Commission supported the notion that in respect of standard patents, the inventive step threshold was too low also. The current primary test for inventive step is fundamentally whether the skilled person faced with the same problem would have taken, as a matter of routine, whatever steps might have led from the prior art to the invention, whether they be the steps of the inventor or not (*Wellcome Foundation* (1981) 148 CLR 262 at 286). Along with sub-tests such as the requirement for a "mere scintilla" of inventiveness, the Government agreed that retaining these tests did not, in fact, "raise the bar" as was the intent of the recent 2012 reforms (see, our previous article on this topic). The Government recommended adopting the "problem/solution" or "obvious to try" approaches of the European Patent Office, which would be expected to provide a higher inventive step standard across the board. Draft legislative amendments have followed.

What then, to do with "directly led as a matter of routine" and/or "a mere scintilla"? Couldn't these become the new examination standards for an innovative step?

It is worth noting at this juncture that the "real" issue arguably concerns innovation patents in the "borderline patentable" category. Given the low innovative step threshold for patentability, these are hard to ignore and require that a commercial entity expends time and funds obtaining a FTO opinion and/or requesting examination/certification to be assured that they may safely carry out their intended activities.

It appears that two relatively simple "fixes" could address two of the headline deficiencies of the innovation patent system.

Notwithstanding, the (broken) innovation patent system is not meeting its stated objectives

In recommending the innovation patent system be abolished, the Government had merely assumed the position of both the Productivity Commission and ACIP before it. Both had opined that the innovation patent system (as it stood) was unlikely to provide net benefits to the Australian community or to the SMEs who are the intended beneficiaries of the system. The Productivity Commission found that the majority of SMEs who use the innovation patent system do not obtain value from it and that the system imposes significant costs on third parties looking to navigate around thickets of low-level patents.

The Government noted that the innovation patent system was established with the express objective of stimulating innovation amongst Australian SMEs. Rather than "fix" the innovation patent system, the Government was of the opinion that more targeted assistance may better assist SMEs, while avoiding the broader costs imposed by the innovation patent system. Along with initiatives to support SMEs introduced through the National Innovation and Science Agenda (NISA) and existing programs such as the R&D Tax incentive, the Government noted that it had already implemented a number of measures to support SMEs such as the IP Toolkit for Collaboration, Source IP, the Patent Analytics Hub and grants and advisory services for businesses in certain industry sectors looking to leverage their IP. Moreover, IP Australia has recently established a new IP Counsellor to China, is trialling patent analytics services and is raising education and awareness of IP issues with local start-ups.

But could a "fixed" innovation patent system meet its stated objectives?

Arguably so. A "fixed" innovation patent system could very easily address problems 2 ("granted" upon filing) and 3 (the innovative step threshold). However, problem 1 (lack of buy-in from SMEs) appears to run much deeper and invites a paradigm shift on Australia's part in recognising that "innovation" is an aspiration rather than a dirty word.

Notwithstanding, the question is merely academic because the abolition of the innovation patents system now seems inevitable based upon the Government's response to the debate surrounding it.

Is abolition widely supported throughout the profession?

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) is the peak professional body charged with representing the views of our local profession. IPTA has assumed a position diametrically opposed to that adopted initially by ACIP, and now supported by both the Productivity Commission and the Government:

IPTA remains of the view that the innovation patent system remains an appropriate means to stimulate innovation by Australian small to medium business enterprises and that it is an appropriate means for protecting lower level inventions that may not be entitled to standard patent protection. IPTA also believes that the innovation patent system also continues to serve the function of providing a fast route to a granted and certified patent which can be used in enforcement action in a similar manner to the former petty patent.

Although IPTA's position was made public long before the economic modelling that ultimately shaped ACIP's stance (and more latterly, that of the Productivity Commission and Government), there appears little evidence that the views of the wider profession have changed significantly in the interim. Anecdotally, we understand that there remains strong support for the innovation patent system within Australia's patent attorney profession as a whole.

Has little brother taught big brother anything?

As readers will know, New Zealand has a short and fairly unspectacular history when it comes to second-tier patents regimes. Although the draft legislation for an "advancement patent" was tabled back in April 2018, it took only four months to be voted down in New Zealand's Parliament.

As it happens, New Zealand's draft legislation claimed to borrow heavily from the Australian experience. An "advancement step" (being based upon the Danish standard preferred by ACIP and of a higher standard than Australia's pseudo-novelty "innovative step"), a compulsory request for examination (no more innovation patents clogging up the register for their full term when the patentee has no intent to examine or enforce them), no "granted" status upon filing, and a 10-year term in exchange for providing the public with an "advancement step" – in a nutshell, the draft NZ legislation purported to correct everything that is perceived to be wrong (at least at the legislative level) with Australia's innovation patent system.

And what did we learn from this? Precisely nothing. As mentioned, the draft legislation was voted down following its first reading in New Zealand's Parliament. However, voting was conducted along party lines – not on merit. As such, the advancement patent could conceivably reappear with the next change of government (i.e., when the party proposing the advancement patent next has a majority in the house).

Next steps

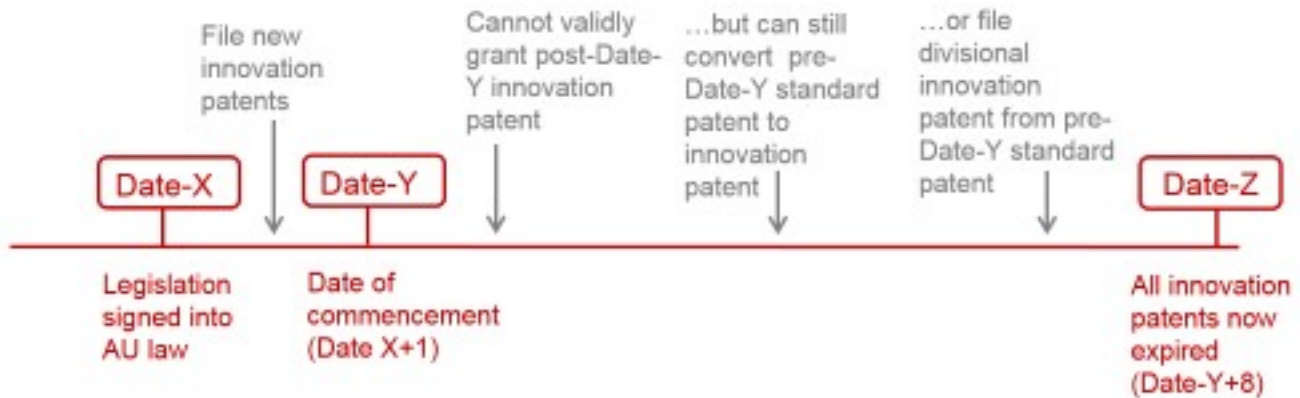
As noted, the Government has now proposed legislative amendments to the Patents Act 1990 to abolish the innovation patent system, with appropriate transitional provisions to maintain existing rights. The Government has announced that it will continue to explore more direct mechanisms to better assist SMEs to understand and leverage their IP and access affordable enforcement.

Proposed transitional provisions for abolishing the innovation patent

The *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2018* (Cth) proposes the following measures for abolishing the innovation patent system:

- The legislation is passed into law on "date-X"; it takes effect from "date-Y", which is 12 months from date-X.
- At any time prior to date-Y (for example, between now and date-X, and then between dates X and Y), new innovation patent applications can be filed. In other words, nothing changes until the legislation takes effect on date-Y.

- As of date-Y, no new innovation patent applications can be validly granted. However, an existing standard patent application (i.e., having a filing date prior to date-Y) can still be converted into an innovation patent, or can have a divisional innovation patent filed from it. With innovation patents having an 8-year term, it will be appreciated that under the proposed system, all innovation patents will have expired by "date-Z" (effectively, date-Y+8).



The proposed transitional arrangements also give rise to another interesting consequence: added matter restrictions. An Innovation patent claim having a priority date on or after date-X cannot be validly certified. This guards against effective US C-I-P practice such that a claim reliant on added subject matter may not be entitled to its original priority date; if its revised priority date falls after date-X, the claim cannot be certified following examination and is thereby not enforceable at law.

Commentary - Let the punishment fit the crime

I've always been a proponent of the innovation patent system. In fact, I've spent the past 15 years generating interest amongst our clients in the strategic use of the innovation patent system. Little by little we've made inroads, to the extent that several clients – both local and foreign – are making legitimate and effective use of the system. To see it abolished now would effectively undo a lot of what we've worked for.

Nobody's pretending that the innovation patent system is perfect. The very first paragraph of this article admits as much. However, abolishing it seems unnecessarily harsh – a bit like imposing the death penalty for jaywalking. From a personal standpoint, one can't help but think there has got to be a better way.

While the reforming legislation progresses, patent applicants may wish to give advance consideration to availing of the Australian innovation patent system while it still exists.

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