Proposal

This paper sets out a proposal directed at improving Australia’s Innovation Patent system and, in particular, ensuring that it is used to secure property rights only for genuine inventions. To that end, the Government is proposing to raise the patentability threshold for Innovation Patents to the same level of inventiveness as required for Standard Patents.

Like most countries, Australia allows Standard Patent grants for new inventions. Standard Patents usually have a maximum term of 20 years. Some countries also provide for a “second tier” patent system: in Australia, these are called Innovation Patents and they have a maximum term of 8 years. Only in Australia, however, are Innovation Patents allowed for any innovation which passes an “innovative step” test.

The Delnorth decision\(^1\) showed that the “innovative step” test permits the grant of an Innovation Patent for enhancements which are obvious, giving the owner of the Innovation Patent exclusive rights to exploit an obvious innovation for up to 8 years. In the Government’s view, this is uncompetitive and unacceptable.

In its recent Raising the Bar Act (Intellectual Property Amendment (Raising the Bar) Act 2012), the Government raised the inventiveness tests for Standard Patents to ensure that only genuine inventions can be granted a Standard Patent.

The Advisory Council on Intellectual Property is presently conducting a review of the Innovation Patent system as a whole. In the mid term, this will provide valuable insights and recommendations for improvements.

In the short term, however, there is a pressing need to address emerging risks of the Innovation Patent system being used in ways which would lead to undue costs to consumers and to businesses that compete with owners of Innovation Patents. For example, there is a need to ensure that Innovation Patents do not inappropriately extend the life of pharmaceutical patents and delay the introduction of less expensive generic medicines, leading to increased costs to consumers and an increase in government expenditure through the Pharmaceutical Benefits Scheme.

As a result, the Government proposes to amend the Patents Act 1990 to raise the threshold for inventiveness to the same level as for Standard Patents (Attachment A refers). This approach is consistent with the second tier patent systems operating in countries such as Germany and Japan.

Making a submission

IP Australia invites interested parties to make a written submission, and in particular seeks views on the implementation of the proposal in this paper.

Comments will be welcome from anyone interested in the operation of the patent system in Australia and especially from those who have been, are, or expect to be users of the Australian patent system.

IP Australia will consider submissions and then make recommendations to Government on the way forward.

The closing date for submissions is Thursday, 25 October 2012.

Written submissions should be sent to:

Brendan Bourke  
Director, Domestic Policy  
IP Australia  
PO Box 200  
WODEN ACT 2606  
Email: MDB-Reform@ipaustralia.gov.au

\(^1\) Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd [2008] FCA 1225 (Delnorth)
The contact officer is Brendan Bourke, who may be contacted on (02) 6283 2148. Please note that, unless otherwise requested, written comments submitted to IP Australia may be made publicly available.

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IP Australia is committed to complying with the *Privacy Act 1988* when collecting, using and disclosing personal information.

Information provided to IP Australia in your submission, including any personal information, will be used for the purpose of conducting the review or further consultation. Your submission may also be disclosed to other Commonwealth agencies with an interest in the topic of consultation. Your submission may be published on IP Australia’s website.

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**History of Australia’s Innovation Patent**

The Australian Innovation Patent system was introduced in 2001 to replace the petty patent system. The petty patent system was designed to provide patent protection that was inexpensive, quick and easy to obtain, and valid for a relatively short term (six years). It was designed to be attractive for Australian small to medium enterprises (SMEs), particularly for those with inventions having a short commercial life. However, the petty patent system was not well utilised, with an average of only 300 applications filed each year, mostly by individuals.

Subsequently, the petty patent system was replaced by the Innovation Patent system, introduced in response to the Australian Law Reform Commission’s (ALRC) Review of Designs (1995) and the Advisory Council on Intellectual Property’s (ACIP) Review of the Petty Patent System (1995). The Innovation Patent system covered a gap identified by both of these reports: that is, some functional or incremental innovations were not sufficiently inventive to be granted a standard or petty patent, yet they could not be protected under the designs system (which protects only the appearance of a product), either.

To address this gap, the *Patents Act 1990* contains provisions enabling the operation of Australia’s Innovation Patent system. In essence, an Innovation Patent is characterised by:

- a lower patentability threshold than for a Standard Patent (‘innovative step’ rather than ‘inventive step’);

- a simple application process providing low-cost and a short timeframe to grant, followed by optional searching, examination and certification; and

- the maximum term of an Innovation Patent is eight years, rather than 20 years for a Standard Patent.

**Actual use of the Innovation Patent**

**Technology**

Since the Innovation Patent was introduced in 2001, there has been a significant rise in Innovation Patent applications within certain high-tech technologies – specifically, electrical devices and engineering (a 350 per cent rise), information technology (a 390 per cent rise), and pharmaceuticals (a 560 per cent rise). This compares to a rise in applications of 150 per cent averaged over all technologies. The annual number of Innovation Patent applications for
these technologies has increased from 82 applications (in 2001) to 401 (in 2011), amounting to nearly a quarter of all Innovation Patent applications filed in 2011.

**Nature of applicants**

When the Innovation Patent system was introduced in 2001, over 85 per cent of applications were granted to Australian individuals and companies. This proportion has fallen to about 65 per cent in 2011, with much of that decline in the years since the Delnorth decision (see below).

![Figure 1](image_url)

**Figure 1  Innovation patent applications by residency**

The Delnorth case concerned three Innovation Patents for an invention for a “Roadside Post”. Delnorth Pty Ltd alleged that Dura-Post (Aust) Pty Ltd had infringed these Innovation Patents. In response Dura-Post (Aust) Pty Ltd made a cross-claim of invalidity of the Innovation Patents.

The Delnorth decision (and the decision of the appeal that issued in July 2009) clarified that the innovative step threshold is much lower than was anticipated by the designers of the system. In particular, the Delnorth decision established that an ‘innovative step’ allows even clearly obvious enhancements to be patented. This leaves the current system open to inappropriate use.

**Reasons for policy change**

The potential for evergreening is of particular concern. Evergreening is a strategy in which companies could use Innovation Patents to effectively extend the life of their patents. In addition, the comparative ease of gaining an Innovation Patent could also help companies to create ‘patent thickets’, a wall of patents which hinders rivals’ ability to invent around a given invention.

There is a real and pressing risk that more applicants could choose to use these strategies in the future. Such strategic behaviour would likely bring Australia’s IP system into disrepute both in Australia and overseas, because it would highlight the poor balance between protection and innovative disclosure within Australia’s Innovation Patent system. The 2008 review of the national innovation system ‘Venturous Australia’ and the Government’s response to this review ‘Powering Ideas: the innovation agenda for the 21st century’ noted that in order to meet its objective of supporting innovation, the patent system must strike a balance. It must provide sufficient protection to reward innovation, but not so much protection as to block future or follow-on innovation.

These concerns have been addressed for Standard Patents in the *Intellectual Property Amendment (Raising the Bar) Act 2012* (the Raising the Bar Act), which raises the threshold for the inventive step required for Standard Patents to a level that aligns Australia’s law with that of its major trading partners. The Raising the Bar Act does not address the low standard of patentability that is required for Innovation Patents. This is inconsistent with the intentions of the Raising the Bar Act.
Other countries’ use of utility models

Second tier patent systems like the Innovation Patent are sometimes known as utility models. Currently, a modest but significant number of countries and regions provide utility model protection, with some important exceptions. The United States, India, Singapore, the United Kingdom and New Zealand do not grant utility model patents.

Other developed economies (e.g. Germany and Japan) apply an inventive step test to their utility model patents. In Germany’s case the standard is the same as for a Standard Patent, whereas in Japan “the difference between a utility model and a patent is a matter of degree only . . . for a (standard) patent the inventive merit of the invention must be of a more valuable quality.” 2

In the United Kingdom, the 2006 Report on the Gowers Review of Intellectual Property did not recommend the introduction of utility model patents because, among other reasons, utility model patents could increase transaction costs and stunt future innovation.

The proposed reform

The most pressing Innovation Patent policy problem is how to stop the grant of patents for innovations that are obvious. The low standard set for Innovation Patents is at odds with the requirement for Standard Patents, which must demonstrate an “inventive step”. Section 7(2) of the Patents Act 1990 says:

\[
\text{For the purposes of this Act, an invention is to be taken to involve an inventive step when compared with the prior art base unless the invention would have been obvious.}\]

The simple solution is to amend the Act to ensure that Innovation Patents also use this definition. This would ensure that obvious innovations are excluded from the Innovation Patent system, removing the opportunity for strategic use of the system by applicants to extend the patent life of their products, to tailor patents to target potential infringers, and to increase transaction costs for their competitors.


On 28 February 2011, the Minister for Innovation, Industry, Science and Research requested that the Advisory Council on Intellectual Property (ACIP) investigate the effectiveness of the Innovation Patent system in stimulating innovation by Australian small to medium business enterprises. ACIP subsequently released an issues paper, gathered a number of written submissions, and conducted a number of public forums. ACIP’s review is continuing.

The Australian Government will give full consideration to ACIP’s research and recommendations upon completion of the review. In April 2013, however, the Raising the Bar changes will come into effect, bringing a higher threshold for Standard Patents. This will lead to an increased disparity between the threshold for Standard and Innovation Patents, if Innovation Patents continue to be judged against the current innovative step threshold. Therefore, in light of the emerging and urgent need for policy reforms, the Government proposes to act now by raising the level of inventiveness for Innovation Patents. This will prevent inappropriate use of the system from occurring and help avoid setting unwanted precedents. At the same time, the proposed change will help to reduce uncertainty for businesses and inventors.

DRAFTING INSTRUCTIONS FOR THE INVENTIVE STEP THRESHOLD INTELLECTUAL PROPERTY LAWS AMENDMENT BILL 2012

PATENTABILITY REQUIREMENTS FOR INNOVATION PATENTS

Introduction

1. These instructions are for amendments to impose a higher threshold for inventiveness for Innovation Patents granted under the Patents Act 1990 (the Act).

Background

2. The Act provides for two types of patent: Standard Patents and Innovation Patents. Innovation patents were introduced by the Patent Amendment (Innovation Patents) Act 2000 to replace the previous petty patent system. They were intended to provide a quicker and cheaper form of protection for lower level inventions.

3. The main differences between standard and Innovation Patents are as follows:
   - Standard Patents must possess an ‘inventive step’. Innovation patents need only meet the lower requirement of possessing an ‘innovative step’.\(^3\)
   - Standard Patents generally have a term of 20 years. Innovation patents have a term of 8 years.\(^4\)
   - Standard Patents are granted only after an application has been substantively examined, accepted and possibly opposed. Innovation patents are granted almost immediately after a formalities check and no substantive examination. However, an Innovation Patent is not enforceable until it is substantively examined and certified (optional). Additionally, an Innovation Patent cannot be opposed until after it is granted.\(^5\)
   - Standard Patents may have unlimited claims defining the scope of the monopoly. Innovation patents are limited to 5 claims.\(^6\)
   - Standard Patents may be granted for inventions related to plants, animals and the biological processes for their generation. Innovation Patents cannot be granted for these (although microbiological processes and products of such a process are allowable).\(^7\)

4. Apart from the above differences, standard and Innovation Patents are essentially the same. Importantly, the same infringement remedies apply for Innovation Patents.\(^8\)

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\(^3\) Subsections 18(1) and 18(1A) of the Act.
\(^4\) Sections 67 and 68 of the Act.
\(^5\) Sections 49 to 52; 59 to 62, and Chapter 9A of the Act.
\(^6\) Subsection 40(2) of the Act.
\(^7\) Subsections 18(3) and 18(4) of the Act.
\(^8\) Chapter 11 of the Act.
5. An invention is taken to involve an innovative step when compared with the prior art base if the invention varies from what has been published or done before the priority date of the invention in a way or ways that make a ‘substantial contribution to the working of the invention’. Recent case law has confirmed that this requirement is not onerous. In recent years, concerns have arisen that the ‘innovative step’ threshold for Innovation Patents is too low. In particular, applicants are using Innovation Patents to obtain quick protection for higher level patents that would ordinarily be subject to a Standard Patent application.

6. The Intellectual Property Laws Amendment (Raising the Bar) Act 2012 recently raised the patentability requirements for Standard Patents. However, the ‘innovative step’ test for Innovation Patents was not amended. We consider that further amendments are necessary to address an emerging problem with tactical use of Innovation Patents, which creates uncertainty in the market place and blocks follow-on innovation.

7. We seek to amend the inventiveness test for Innovation Patents to replace the existing ‘innovative step’ test with the same ‘inventive step’ required for Standard Patents. This would align the Innovation Patent requirements with the well-known and legally-settled test for inventiveness that applies to Standard Patents. Raising the inventiveness requirement for Innovation Patents will address community concerns that the Innovation Patent system is being abused, particularly in the information technology industry.

Instructions

8. Please draft amendments to replace the ‘innovative step’ requirement with an ‘inventive step’ requirement. Subject to the drafter’s advice, we consider that this could be achieved by repealing subsections 7(4) – (6), and 18(1A) and removing the words “for the purposes of a Standard Patent” from subsection 18(1) and its heading. Subsection 18(1)(b)(ii) would then apply to both standard and Innovation Patents.

Affected provisions and consequential amendments

9. We consider that the following provisions would require consequential amendment:

- Subsection 24(1) and (2) to remove the reference to an innovative step.
- Paragraph 101G(3)(b) to replace the reference to an innovative step with a reference to an inventive step.
- Subsection 114A(2) to remove paragraphs (a) and (b) and replace them with a single reference to inventive step.
- Paragraph (a) of the definition of ‘prior art base’ in schedule 1 to remove the reference to an innovative step.
- Paragraph (c) of the definition of ‘prior art information’ in schedule 1 – this paragraph should be repealed.

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9 Subsection 7(4) of the Act.
10 Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd [2008] FCA 1225 (Delnorth).
• Subsection 28(1) to replace the reference to paragraph 18(1A)(b) with a reference to paragraph 18(1)(b).

• Paragraph 101B(2)(b) to replace the reference to paragraphs 18(1A)(a) or (b) with a reference to paragraphs 18(1)(a) or (b).

• Subsection 101B(3) to replace the reference to paragraph 18(1A)(b) with a reference to paragraph 18(1)(b).

• Paragraph 101E(a) to replace the reference to paragraph 18(1A)(b) with a reference to paragraph 18(1)(b).

• Subparagraph 101E(aa)(i) to replace the reference to paragraph 18(1A)(b) with a reference to paragraph 18(1)(b).

• Paragraph 101M(b) to replace the reference to paragraphs 18(1A)(a) or (b) with a reference to paragraphs 18(1)(a) or (b).

• Paragraph 102(2C)(b) to remove the reference to paragraph 18(1A)(b).

10. We consider that the following amendments resulting from the Intellectual Property Laws Amendment (Raising the Bar) Act 2012, which commence on 15 April 2013, would require consequential amendment:

• Schedule 1 item 2 – to return the heading to section 7 to its original wording, so that it continues to refer only to inventive step.

• Schedule 1 item 4 – repeal this amendment since subsection 7(4) is to be repealed.

• Schedule 1 item 20, paragraph 101B(2)(b) – replace the reference to paragraphs 18(1A)(a), (b) and (c) with a reference to paragraphs 18(1)(a), (b) and (c).

• Schedule 1 item 21, subparagraph 101E(1)(a)(ii) - replace the reference to paragraphs 18(1A)(a), (b) and (c) with a reference to paragraphs 18(1)(a), (b) and (c).

• Schedule 1 item 24, paragraph 101G(3)(b) - replace the reference to paragraphs 18(1A)(a), (b) or (c) with a reference to paragraphs 18(1)(a), (b) or (c).

• Schedule 1 item 27, paragraph 101M(c) - replace the reference to paragraphs 18(1A)(a), (b) or (c) with a reference to paragraphs 18(1)(a), (b) or (c).

Commencement

11. The amendments should commence on proclamation or 6 months from Royal Assent, whichever is later.
Application, savings and transitional provisions

12. The amendments should apply to Innovation Patent applications filed on or after commencement. They should also apply to Innovation Patents granted in respect of applications filed on or after commencement.