The Senate

Economics Legislation Committee

Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019

September 2019
Senate Economics Legislation Committee

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Referral of the inquiry
1.1 The Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019 (the bill) was introduced in the Senate and read a first time on 25 July 2019.

1.2 On 1 August 2019, the Senate referred the bill to the Senate Economics Legislation Committee (the committee) for inquiry and report by 4 September 2019.

Purpose of the bill
1.3 The bill is the government’s second tranche of reforms to update Australia’s patent system in response to Productivity Commission (PC) recommendations in two inquiries.¹

1.4 It contains provisions to introduce into the Patents Act 1990 (Patents Act) a statement of objectives, and begins phasing out the second-tier innovation patent system (IPS). Other proposed amendments address transparency and accountability for Crown use of patented technology and design, and improve certainty for the compulsory licencing of patents by introducing a ‘public interest’ test. The bill also contains a number of minor technical and consequential amendments to improve the efficiency of the intellectual property (IP) system.

Background
1.5 The bill addresses issues raised by the PC’s Inquiry into Australia’s Intellectual Property Arrangements of 2016 and 2013 Compulsory Licencing of Patents report, specifically:

- inserting an objects clause into the Patents Act;
- abolishing the IPS;
- clarifying the application, scope and processes for Crown use; and
- introducing a public interest test for the compulsory licencing of patents.

Productivity Commission Intellectual Property Inquiry
1.6 The 2016 PC inquiry report stated Australia had lost its way on IP policy. It found Australia’s IP arrangement fall short in many ways, including:

- not striking the right balance between ensuring creators and inventors are rewarded for their efforts, and providing only the level of incentive required to induce the additional investment that would not otherwise occur;
- granting patent exclusivity too readily, allowing for a proliferation of low-quality patents, frustrating follow-on innovators and stymieing competition; and
- displaying a lack of steely resolve to address misinformation and scare campaigns.²

1.7 The bill addresses two of the 25 recommendations from the PC inquiry report. These recommendations relate to patents:

Recommendation 7.1

The Australian Government should incorporate an objects clause into the Patents Act 1990 (Cth). The objects clause should describe the purpose of the legislation as enhancing the wellbeing of Australians by promoting technological innovation and the transfer and dissemination of technology. In so doing, the patent system should balance over time the interests of producers, owners and users of technology.

Recommendation 8.1

The Australian Government should abolish the innovation patent system.³

Patents
1.8 Patents are a central element of the IP system. A patent grants a period of up to 20 years for the exclusive right to commercially exploit an innovation. A patent applicant can also make an unlimited number of claims to extend market protection. In exchange, the owner discloses the nature of the innovation.⁴

1.9 For the PC, the fundamental principle of patents is that they help advance human knowledge by encouraging socially valuable innovation that would not have otherwise occurred. Innovation is said to benefit the community where it leads to the development of new goods and services and more efficient


production methods. The greatest benefit comes where this knowledge disseminates to other parts of the economy.\textsuperscript{5}

1.10 However, it is the PC’s judgment the Australian community is not getting a reasonable return from the protection granted to certain patent holders. This is despite reforms introduced in 2012 under the 'Raising the Bar' initiative (\textit{IP Laws Amendment (Raising the Bar) Act 2012}) that increased the ‘inventive step’ threshold by redefining ‘prior art’ and common general knowledge.\textsuperscript{6}

1.11 The PC is of the view Australia provides stronger patent rights than most other advanced countries and, as a large net importer of patented technology, this overcompensation is costly for Australians—financially and in terms of innovation.\textsuperscript{7}

1.12 According to the PC, the rules and processes for granting particular patents in Australia lead to a multitude of patented innovations that are of little or no community benefit, with some used solely for strategic purposes to prevent the market entry of competitors or innovators. The consequence is follow-on researchers and innovators are frustrated by the rising cost of innovation as they must invest in costly workarounds. These costs are unnecessarily passed on to the community.\textsuperscript{8}

1.13 Further, the PC writes, 'noise' from low-value patents has the potential to weaken the credibility signal in patents. This increases the rate of return required by financiers and makes it harder for firms to leverage patents to acquire capital at lowest cost.\textsuperscript{9}

1.14 To address the misuse of the patent system, the PC recommended a number of reforms to better target the system at socially valuable and additional innovations. A key recommendation (recommendation 7.2) called for raising the inventive step requirements for patents. Measures to this effect were part of the exposure draft of the bill. However, following submissions from


stakeholders, the government chose to delay this reform (see discussion in chapter 2 on IP Australia consultation).10

Objects clause

1.15 Recommendation 7.1 of the PC inquiry report was the introduction of an objects clause into the Patents Act. The PC pointed out many countries, including Japan, Korea, China and New Zealand, have an objects clause or equivalent in their patents legislation.11

1.16 The PC argued that by setting out the underlying purpose of the Patents Act, an objects clause would help:

- ensure decisions in the application and design of the Patents Act are consistent over time with a well-functioning IP system;
- improve the likelihood decisions align with policy objectives;
- ensure the system remains adaptable and fit-for-purpose as technologies emerge and economies and business models evolve; and
- help shield the system against further expansion in the scope and strength of rights, and guide disputes over the intent of future legislative change.12

1.17 The PC is strongly of the view the objects clause:

...should make clear that the principal purpose of the patent system is to enhance the wellbeing of Australians by promoting technological innovation and the transfer and dissemination of technology. In so doing, the patent system should balance the interests of producers, owners and users of technology.13

1.18 The government has indicated its support for an objects clause on several occasions. In its response to the PC inquiry, the government agreed a statement of objectives in the Patents Act would 'provide a clear statement of legislative intent for the guidance of the courts in the interpretation of the Act'.14

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10 Productivity Commission, Intellectual Property Arrangements: Inquiry Report, No. 78, September 2016, pp. 199, 207. Other recommended reforms in this area included requiring applicants to identify the technical features of their innovation; and raising and restructuring patent renewal and claim fees to reduce the strategic use of patents.


Innovation patent system

1.19 Recommendation 8.1 of the PC inquiry report called for the IPS to be phased out. The IPS was established in 2001 following a 1995 review by the Advisory Council on Intellectual Property (ACIP) that recommended the existing 'petty patent' system be reformed to provide 'fast, limited monopoly protection for lower level or incremental innovations'. This would create a second-tier patent system, better able to address the needs of small and medium-sized enterprises (SMEs).\textsuperscript{15}

1.20 There are three key features of the innovation patent:

- the 'threshold for inventiveness' or 'innovative step' targets lower level invention;
- lower fees and quicker administrative procedures reduce the compliance burden on applicants with patents bypassing substantive examination and typically being granted within one month (though the patent is only enforceable if it has been examined and certified—a process taking approximately six months); and
- relative to standard patents, innovation patents are shorter term (eight years maximum), cover fewer claims (up to five), can only be enforced in Australia once certified, but provide the same infringement remedies as a standard patent once certified.\textsuperscript{16}

1.21 The PC found there are around 6,500 active innovation patents in Australia, compared to 130,000 standard patents. In recent years, between 1,300 and 1,800 innovation patents have been granted each year. In 2015, the highest number of innovation patents were in: civil engineering; furniture and games; information technology methods for management; and electrical machinery, apparatus and energy. However, parties using the IPS typically do so only once, and SMEs hold more standard patents than innovation patents.\textsuperscript{17}

1.22 Despite its intent, it is the PC’s view the IPS has been more harmful than helpful to innovative SMEs for two key reasons:

- the lower innovation step contributes to a multitude of low value innovation patents that creates uncertainty for other innovators and financiers; and


• innovation patents are used strategically as a litigation tool to target alleged infringers of standard patents, or to increase uncertainty over the scope of rights for competitors.18

1.23 The PC is not the only agency to identify the shortcomings of the IPS. In a 2015 review, IP Australia found the IPS fails to encourage research and development that would not have otherwise occurred, and is unlikely to provide net benefits to the community. Also in 2015, the government’s independent advisory committee, ACIP, noted the IPS likely results in a ‘net cost to society’.19

1.24 It is the PC’s view any attempt to address the flaws in the IPS would result in a worse outcome and it should instead be phased out. Although acknowledging the possibility some SMEs might be minimally disadvantaged, the PC identified a number of benefits:

• simplification of the patent system;
• greater patent integrity and financier confidence for SMEs; and
• legitimate concerns about the costs of securing IP rights, and enforcement access and costs, would be addressed more directly.20

1.25 The government supported this recommendation, noting more targeted assistance would better achieve the objective of stimulating innovation in Australian SMEs, while avoiding the broader costs imposed by the IPS.21

Productivity Commission Compulsory Licencing of Patents Inquiry
1.26 Recommendations 6.2, 7.1 and 7.2 of the PC Compulsory Licencing of Patents Inquiry called for reforms to compulsory licencing of patents and Crown use provisions.

1.27 Australia has a legislated system of compulsory licencing so patent owners can be compelled to licence their inventions to others in a limited range of circumstances. Compulsory licencing is intended to be invoked in exceptional cases where enforcing a patent would not serve the best interest of the community as a whole. In its 2013 inquiry report, the PC found there was a

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clear case to reform the criteria for compulsory licencing and made six recommendations to this effect.22

1.28 As with the later PC inquiry (outlined above), the PC emphasised the principle of balance, stating:

A patents system involves a trade-off between encouraging innovation and facilitating access to new technologies. In particular, the right to exclude others from using a patented invention is central to providing innovators with a means to benefit financially from their efforts, but it also has the potential to hinder the community’s access to new technologies.

A patent that provides a greater reward than needed to induce an invention could reduce the invention’s net benefit to the community as a whole, and result in a greater share of the benefits going to the patent owner. In cases where there are no substitutes for the invention, a patent could also facilitate monopolistic and/or anticompetitive behaviour.23

1.29 Safeguards are built into patents systems by all countries to limit potential shortcomings. One such safeguard is Crown use, another is compulsory licencing.24

Crown use
1.30 Crown use is one of seven mechanisms in the Patents Act that allow a patented invention to be exploited without the patentee’s authorisation. Crown use is considered a less costly and time-consuming alternative to compulsory licencing (see below). Crown use can be invoked when an invention is used for services to a government.25

1.31 Under current Crown use arrangements, there is no requirement for a government to first negotiate with the patent owner and, if unsuccessful, apply to the Federal Court for authorisation to use an invention. There is also no explicit requirement for compensation to be ‘just and reasonable’, though a patent owner can apply for a court determination on the compensation it receives. Further, uncertainty exists as to how widely Crown use can be applied, particularly in healthcare.26

1.32 At the time of the 2013 PC inquiry report, although governments may have acquired patents on a voluntary basis, there had not been a compulsory acquisition of a patent through Crown acquisition provisions.27

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1.33 Nevertheless, the PC proposed reforms to reduce uncertainty about the scope of Crown use, and to improve transparency and accountability. The inquiry report made two recommendations with regard to Crown use:

Recommendation 7.1

The Australian Government should seek to amend s. 163 of the Patents Act 1990 (Cwlth) to make it clear that Crown use can be invoked for the provision of a service that the Australian, State and/or Territory Governments have the primary responsibility for providing or funding.

Recommendation 7.2

The Australian Government should seek to amend the Patents Act 1990 (Cwlth) to require:

- the Crown to attempt to negotiate use of the patented invention prior to invoking Crown use
- the Crown to provide the patentee with a statement of reasons no less than 14 days before such use occurs
- Crown use to be approved by a Minister (the relevant Federal Minister or State Attorneys-General)
- that in instances of Crown use, the patentee is entitled to remuneration determined on the same basis as that for a compulsory licence.

The first two requirements should be able to be waived in emergencies. However, in all cases patentees should be provided with immediate notice that their patents have been used, and a statement of reasons as soon as practical thereafter.

Compulsory licence

1.34 The Patents Act allows the Federal Court to order a patentee to grant an applicant a licence to work a patented invention on the grounds that the ‘reasonable requirements of the public’ are not being satisfied. The conditions for making the order are specified in paragraph 133(2)(a) and guidance on reasonable requirements of the public is given in subsection 135(1).

1.35 The PC found the current language in section 135 of the Patents Act conflates the ‘reasonable requirements of the public’ with the interests of individual trades or industries. The PC is of the view this is inconsistent with promoting community-wide welfare in that it appears to pursue protectionist objectives.

1.36 Further, the PC found the fact the test stands alone in Australian legislation and Common Law, rather than being consistent with and leveraging off
comparable provisions in other laws, increases the uncertainty for parties on how the provision will be interpreted.32

1.37 The PC argued for a new public interest test for the granting of compulsory licences and recommended:

Recommendation 6.2

The Australian Government should seek to amend the Patents Act 1990 (Cwlth) to replace the ‘reasonable requirements of the public’ test for a compulsory licence with a new public interest test. The new test should specify that a compulsory licence to exploit the patented invention would be available if the following conditions are met:

• Australian demand for a product or service is not being met on reasonable terms, and access to the patented invention is essential for meeting this demand.
• The applicant has tried for a reasonable period, but without success, to obtain access from the patentee on reasonable terms and conditions.
• There is a substantial public interest in providing access to the applicant, having regard to:
  − benefits to the community from meeting the relevant unmet demand
  − commercial costs and benefits to the patent holder and licensee from granting access to the patented invention
  − other impacts on community wellbeing, including those resulting from greater competition and from the overall effect on innovation.

The new provisions should require the Federal Court to set the terms of the licence, including—where the parties cannot reach agreement—any remuneration, consistent with the public interest, having regard to the rights of:

• the patentee to obtain a return on investment commensurate with the regulatory and commercial risks involved
• the public to the efficient exploitation of the invention.33

Provisions of the bill

1.38 The bill consists of eight schedules and contains 96 items:

• Schedule 1—Responses to the Productivity Commission
  − Part 1—Object of the Act
  − Part 2—Innovation patents
• Schedule 2—Crown use of patents
  − Part 1—Amendments
  − Part 2—Application and transitional provisions
• Schedule 3—Crown use of designs

- Part 1—Amendments
- Part 2—Transitional provisions

- Schedule 4—Compulsory licences
- Schedule 5—Seals
- Schedule 6—Specifications
- Schedule 7—Protection of information
- Schedule 8—International applications.

1.39 The bill amends three pieces of legislation:

- Patents Act 1990;
- Designs Act 2003; and

1.40 The following outlines the main amendments proposed by the bill.

Schedule 1—Responses to the Productivity Commission

Part 1—Object of the Act—Patents Act 1990

Item 1: Object of the Act

1.41 Part 1 (item 1) inserts after section 2 of the Patents Act the following provision:

2A Object of this Act

The object of this Act is to provide a patent system in Australia that promotes economic wellbeing through technological innovation and the transfer and dissemination of technology. In doing so, the patent system balances over time the interests of producers, owners and users of technology and the public.

1.42 This item responds to recommendation 7.1 from the PC intellectual property inquiry report (see above).

1.43 The Explanatory Memorandum (EM) states the objects clause articulates the underlying purpose of the patents system in Australia and provides that the benefits of the patent system to society are primarily economic in nature. In this way, the application of the objects clause is limited to economic factors, and excludes ethical and social considerations.

1.44 The term ‘technological innovation’ is intended to be interpreted broadly to mean the application of scientific knowledge for practical purposes. This,

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according to the EM, is consistent with the current patentable subject matter threshold under the Patents Act, and with international practice.36

1.45 The EM emphasises the substance of the objects clause is not new and merely reflects the existing goals of the patent system. Amongst other things, the clause will assist courts in interpreting the Patents Act in cases where the text of the legislation is uncertain or unambiguous.37

Part 2—Innovation patents—*Patents Act 1990*

**Items 2–9: Priority date**

1.46 Part 2 deals with phasing out the IPS, as recommended by the PC.38 It makes several amendments dealing with ‘priority date’. These amendments will prevent the filing of new applications for innovation patents by requiring the priority date, and the date of the patent for an innovation patent application (if granted), to be prior to the commencement of the amendments.39

1.47 The EM states the phasing out of the IPS will not affect existing rights and the system will continue to operate for innovation patents filed before the amendments commence.40

1.48 Further, the existing right to file divisional applications and convert a standard patent application to an innovation patent application (thereby adopting the priority date of the standard patent application), will be maintained for any patent or application filed prior to the commencement date of these amendments.41

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39 A priority date is generally the date on which the application is lodged and is the date from which the claimed invention is assessed for novelty and innovation (inventive step). Authorities examine the ‘inventive step’ in comparison with the ‘prior art’ and common general knowledge at the time of the priority date. The priority date is also relevant to the order in which a patent application will be considered in relation to other applications. In certain circumstances, a priority date may be earlier than the date of lodgement, for instance, in the case of divisional applications or the conversion of a standard patent application to an innovation patent application. See: Productivity Commission, *Intellectual Property Arrangements: Inquiry Report*, No. 78, September 2016, pp. 14, 225, 241, 609, 672.


41 Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019, *Explanatory Memorandum*, pp. 14–15. A divisional application divides a patent application (known as the parent application) into two or more applications. This allows an
Schedule 2—Crown use of patents

1.49 There are 32 items in this schedule which together look to increase certainty and provide for transparency in the operation of Crown use of patents.

Part 1—Amendments to Patents Act 1990

Item 5: Before section 161 [When an invention is exploited for Crown purposes]

1.50 Item 5 inserts a new section 160A into the Patents Act to provide a definition of ‘when an invention is exploited for Crown purposes’ and in so doing clarifies its application and scope. This item responds to the PC recommendation 7.1.42

1.51 The item specifies, amongst other things, that an invention is exploited for Crown purposes if it is exploited for the proper provision of services of a relevant authority. This includes all services Commonwealth and state/territory governments have the primary responsibility for providing or funding. It will continue to allow governments to authorise non-government bodies to exploit an invention under Crown use provisions.43

1.52 The EM states the amendment will clarify the use of patented inventions in the health sector, particularly in relation to the provision of diagnostic genetic testing undertaken by private providers for private patients.44

Item 7: Section 163 [Crown exploitation of inventions-general rule]

1.53 Item 7 repeals and substitutes a new section 163, and inserts a new section 163A to the Patents Act. This item responds to the PC recommendation 7.2.45

1.54 These sections specify several new requirements or steps that must be completed for the exploitation of an invention by the relevant authority to be exempt from infringement of a patent. There are requirements specified for non-emergency (s163) and emergency (s163A) situations.

1.55 Amongst other things, the amendments in section 163 introduce new requirements for attempting prior negotiation, ministerial oversight and approval, and providing to the relevant party a copy of the approval and statement of reasons. Approval by the minister is not a legislative instrument and is not subject to parliamentary oversight.


1.56 Further, proposed subsection 163(2) specifies that exploitation is limited to the terms agreed by the parties or determined by the court. These terms may be agreed or determined at any point in time, including after exploitation has commenced. These terms are provided for in section 165, which is given a new heading under item 10—‘Crown exploitation of inventions—terms (including remuneration)—and amended under item 11.46

1.57 The emergency provisions under proposed section 163A are, according to the EM, intended to apply in cases of an unforeseen occurrence or a sudden and urgent occasion for action. For instance, it might include a public health crisis or medical emergency, war, a national security situation, perceived threats to law and order, and natural disasters. A state of emergency need not be declared by a government. An approval given by the relevant minister for Crown exploitation in an emergency is not a legislative instrument subject to parliamentary scrutiny.47

1.58 The EM states the patentee has existing rights under section 165A of the Patents Act (renamed under item 14 as 'Crown exploitation of inventions—court order to cease') to apply to cease Crown exploitation, and to challenge the exploitation under the Administrative Decisions (Judicial Review) Act 1977.48

Items 8–9: Section 164 [Crown exploitation of inventions—information to be given by relevant authority]

1.59 Item 9 makes consequential amendments to section 164 of the Patents Act (retitled under item 8 as 'Crown exploitation of inventions—information to be given by relevant authority'), which allows the government not to provide information specified in subsections 163(3) or 163A(3) to the applicant/nominated person/patentee if it appears 'it would be contrary to the public interest to do so'.

Item 11: Subsection 165(2) [Crown exploitation of inventions—terms (including remuneration)]

1.60 Item 11 repeals and substitutes a new subsection 165(2) that provides guidance on how remuneration for Crown use is to be determined in cases where parties fail to come to an agreement and apply to a prescribed court for a determination.

1.61 The amendment requires the prescribed court to determine an amount of remuneration that is 'just and reasonable, having regard to the economic value


of the exploitation of the invention and any other matter the court considers relevant. The existing subsection 165(4) continues to apply and allows the court to take into account any compensation already received.

1.62 The EM states this amendment will go some way towards addressing PC concerns that the lack of guidance in the existing legislation leaves patentees disadvantaged and can weaken their bargaining position in seeking to obtain fair and equitable agreement.

Part 2—Application and transitional provisions

Items 28–29: Application of amendments

1.63 Part 2 makes a number of provisions for the application of amendments. According to the EM, the principles underpinning the application provisions are that the changes should:

• take effect as soon as possible, to quickly improve the operation and transparency of the Crown use provisions; and
• not unduly prejudice users of the system, particularly with respect to not affecting any existing or in-force terms for Crown use of an invention, whether these are agreed between the parties or determined by a court.

Items 30–32: Transitional arrangements

1.64 Part 2 also contains transitional provisions for: authorised person; negotiations; and agreements and determinations.

Schedule 3—Crown use of designs

Part 1—Amendments Designs Act 2003

1.65 In addition to Crown use provisions in the Patents Act, there are provisions for Crown use in the Designs Act 2003 (Designs Act). Schedule 3 amends various sections of Chapter 8 of the Designs Act, which permits the use and acquisition of registered designs by the Crown, and enables the Registrar of Designs to restrict the publication of information about a design application if to do so is necessary or expedient in the interests of the defence of the Commonwealth.

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49 A proposed amendment under item 13 makes it clear the terms, method or determination by the court can be agreed before, during, or after the exploitation.


52 The Designs Act applies to the appearance (rather than function) of products that have an industrial or commercial use. A design refers to the features of shape, configuration, pattern or ornamentation that give a product a unique appearance. Productivity Commission, Intellectual Property Arrangements: Inquiry Report, No. 78, September 2016, p. 332.
1.66 According to the EM, the proposed amendments in this schedule are consistent with those made under Schedule 2 to the Crown use provisions in the Patents Act.\footnote{53}

**Item 2: Used for Crown purposes**

1.67 Item 2 repeals subsection 95(2) and substitutes new subsections 95(2), (3), (4) and (5). The amendments include a definition for 'used for Crown purposes'. A number of the amendments incorporate provisions currently in section 96, 'Use of design by the Commonwealth or a State', which is repealed and replaced with new sections 96 and 96A under item 3.

1.68 As with item 5 of Schedule 2 relating to Crown use of patents, this item provides that a design is used for Crown purposes if the design is used by a 'relevant authority' or by a person authorised by a relevant authority, and if the use is for the services of the Commonwealth or state/territory.\footnote{54}

1.69 Proposed subsection 95(5) remakes and clarifies provisions currently in subsection 96(3) that a design is taken to be used for the services of the relevant authority if the use of the design is necessary for the proper provision of those services. It makes clear 'services of a relevant authority' includes services where the Commonwealth, state or territory has 'primary responsibility' for providing or funding.\footnote{55}

1.70 The EM states this provides an important clarification on the extent of the infringement exemption to third-party non-government entities providing public services. This 'primary responsibility' test will take account of all providers of similar services to those provided or funded by a government, including non-government providers.\footnote{56}

**Item 3: Crown use of designs**

1.71 As with item 7 in Schedule 2 with regard to patents, item 3 introduces a general rule for Crown use of designs in non-emergency and emergency situations by repealing the existing section 96 and substituting new sections 96 and 96A. This item also incorporates provisions currently in section 100 (which is repealed at item 9).


\footnote{54} {Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019, *Explanatory Memorandum*, p. 29.}


1.72 The current provisions do not require the Crown to obtain consent from, or inform, the design owner of its intention to use a design before use has commenced, though the Crown can choose to seek consent. Neither does it require ministerial oversight.

1.73 According to the EM, the introduction of ministerial approval will provide greater certainty for government or semi-government entities and for registered owners of designs. For instance, it is clearer that a number of entities can potentially qualify as ‘the Crown’, including employees, commissions, statutory authorities, statutory corporations, government business entities, government owned corporations, research institutes, and private corporations under contract to the government.57

1.74 The decision by the minister is not a legislative instrument and therefore not subject to parliamentary scrutiny.58

1.75 The emergency provisions are substantively the same as those discussed under item 7 of Schedule 2.

Item 7: Crown use of designs—terms (including remuneration)

1.76 Item 7 repeals and inserts a new section 98, which provides guidance on how remuneration is to be determined in cases of Crown use of designs. It contains the substance of proposed amendments at items 11 and 13 of Schedule 2 with regard to the Patents Act.

1.77 The EM states the amendments will address concerns raised by the PC that a lack of guidance on pricing can leave patentees disadvantaged, and the lack of an applied standard or criterion to refer to in negotiations could weaken their bargaining position in seeking to obtain fair and equitable agreement.59

Part 2—Application and transitional provisions

Items 20–24

1.78 Items 20–24 make a number of provisions for the application of amendments and for transitional provisions for authorised person, negotiations, and agreements and determinations. They are substantively the same as those specified in Part 2 of Schedule 2 amending the Patents Act.


Schedule 4—Compulsory licences

1.79 A compulsory licence is an order made by the Federal Court for a patentee to grant a licence to another party to exploit an invention. The intent is it prevents a patentee from restricting others from exploiting an invention in the local market where the patentee has failed to do so.60

1.80 Schedule 4 addresses the 2013 PC inquiry report recommendation 6.2 to replace the ‘reasonable requirements of the public’ test with a ‘public interest’ test when the Federal Court considers an application for a compulsory licence.61 Several items make amendments to this effect, in both granting and revoking a compulsory licence. This schedule also clarifies the processes for compulsory licences for inventions that build upon previous patents.

Item 2: Section 132B

1.81 Item 2 substitutes new parts into the simplified outline of Chapter 12, Part 2 of the Patents Act. It replaces the ‘reasonable requirements of the public’ reference with the substance of the new public interest test, and makes reference to compulsory licences for dependent patents.

Item 6: Subsections 133(2), (3) and (3B)

1.82 The proposed amendments retain much of the content of the current subsections, but remove references to ‘reasonable requirements of the public’ and insert public interest requirements. Item 6 also adds additional requirements for the grant of a compulsory licence, and clarifies issues related to dependent patents.

1.83 The following continue to be required for any grant of a compulsory licence:

- an applicant must try for a reasonable period, without success, to obtain authorisation to work on the invention on reasonable terms and conditions;
- the patentee has given no satisfactory reason for failing to exploit the patent; and
- the patentee has contravened or is contravening Part IV of the Competition and Consumer Act 2010 or an application law in connection with the patent.62

1.84 Item 6 also adds the following additional requirements for the granting of a compulsory licence:


there must be unmet demand in Australia for the original patented invention and the authorisation is required to meet the demand; and
the patentee has given no satisfactory reason for failing to exploit the patent to the extent necessary to meet the demand for the invention in Australia.

1.85 The public interest test, introduced by new paragraph 133(3)(e), requires that any compulsory licence be in the public interest. In making this determination, the court must have regard to:

• the benefits to the public from meeting the demand for the original invention;
• the commercial costs and benefits to the patentee and the applicant from providing authorisation to exploit the original invention; and
• any other matters the court considers relevant, including matters relating to greater competition and any impact on innovation.

Item 7: Remuneration

1.86 Item 7 inserts a new standard to which the Federal Court must have regard when determining the amount of remuneration to be paid to the patentee in cases where there is no agreement between the patentee and the applicant.

1.87 The current standard is 'just and reasonable', having regard to the economic value of the licence and the desirability of discouraging contraventions of the law.63

1.88 The EM states this does not adequately balance the interests of the patentee to obtain an appropriate economic return and those of the public in having demand for the invention met. In addition to current requirements, the amendment requires the court to also have regard to the right of the patentee to obtain a return on investment, and the public interest.64

Item 11: Paragraph 134(2)(a)

1.89 Item 11 requires the court to consider, amongst other things, the public interest when making a decision to revoke a patent. This change is consequential to amendments described at item 6.65

Item 12: At the end of section 134

1.90 Item 12 inserts a new subsection specifying the factors the court must consider in determining whether it is in the public interest to revoke a patent. These are the same factors set out at item 6.66

**Schedule 5—Seals**

1.91 This schedule makes amendments to the Patents Act and Trade Marks Act 1995 to correct an anomaly whereby the seal for the Designs Office (under the Designs Act) can be kept and used electronically, but those for the Patent Office and Trade Marks Office cannot.

1.92 According to the EM, this change will allow IP Australia to issue certified design, patent and trademark documents electronically.67

**Schedule 6—Specifications**

**Items 1–6**

1.93 The EM states schedule 6 corrects an oversight in the drafting of the Raising the Bar Act 2012 whereby provisions intended to abolish omnibus claims (subsection 40(3A)), were applied during the examination stage of standard and innovation patent applications, but were not applied at other stages, such as amendment after acceptance of an application or after grant of a patent, re-examination, opposition or revocation.68

1.94 The effect is applications and patents to which the Raising the Bar amendment applies are required to satisfy subsection 40(3A) to be accepted, but not at other stages. In effect, it allows an applicant to amend their specification after examination to the extent it would not be acceptable if it were examined.69 These items correct this oversight.

**Schedule 7—Protection of information**

1.95 The EM explains that patent applications and associated documents are published or made publicly available to ensure the public benefits from knowledge of the invention.70 In some cases, patent applications can contain sensitive information that is not essential to understanding the invention.

1.96 Items 1–3 make amendments to resolve an existing ambiguity. The Commissioner of Patents (the Commissioner) currently uses a broad power under regulation 4.3 of the Patents Regulations (the Regulations) to not publish

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certain ‘documents’. The amendments will allow the Commissioner to decide not to publish sensitive ‘information’ (either commercial or personal) that is not essential to understanding the invention, where such publication is not appropriate. The Commissioner may arrange for sensitive information to be redacted prior to publication or public inspection.\textsuperscript{71}

\textit{Schedule 8—International applications}

\textit{Item 1: International applications not filed in the receiving office in English}

1.97 Section 10 of the Patents Act deals with international filing dates. The existing section requires the translation of all applications to be verified in accordance with the Regulations. Item 1 changes this to require only a certificate of verification if required by the Regulations.

1.98 The EM explains this will allow the Regulations to be amended to specify this requirement only when deemed necessary by the Regulations.\textsuperscript{72}

\textbf{Commencement}

1.99 Commencement arrangements are as follows:

- Schedule 1, Part 1—the day after the Act receives Royal Assent;
- Schedule 1, Part 2—the day after the end of the period of 12 months beginning on the day after the Act receives Royal Assent;
- Schedules 2 to 7—the day after the Act receives Royal Assent;
- Schedule 8—the day after the end of the period of six months beginning on the day the Act receives Royal Assent; and
- Sections 1 to 3 and all remaining provisions—the day the Act receives Royal Assent.

\textbf{Consultation on exposure draft of the bill—IP Australia}

1.100 IP Australia has undertaken three consultations since 2017 on issues contained in the bill:

- exposure drafts of the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill and Regulations 2017 (23 October 2017 to 4 December 2017);\textsuperscript{73}


\textsuperscript{73} The proposal to begin phasing out the IPS was initially included in the exposure draft of the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2017, which gained Royal Assent on 24 August 2018. The IPS provision was not included in the Part 1 bill as tabled in the Parliament.
• several IP matters, including Crown use of patents, an objects clause, inventive step requirements, and compulsory licencing (30 August 2017–17 November 2017); and
• exposure draft of the bill (23 July 2018–31 August 2018).74

1.101 IP Australia received 18 submissions to its 2018 consultation on the exposure draft of the bill. This consultation is discussed in chapter 2.

Financial impact
1.102 No information was provided on the financial impact of the proposed legislation. However, during hearings, IP Australia suggested approximately $11 million each year is spent by Australian companies engaging with the IPS and often not obtaining a right they can enforce.75

Legislative scrutiny
1.103 The bill was considered by the Senate Standing Committee for the Scrutiny of Bills, which had no comment.76

1.104 The Parliamentary Joint Committee on Human Rights considered the bill and determined it did not raise human rights concerns.77

Regulatory impact
1.105 No information was provided on the regulatory impact of the proposed legislation.

Conduct of the inquiry
1.106 The committee advertised the inquiry on its website and wrote to relevant stakeholders and interested parties inviting writing submissions by 15 August 2019.

1.107 The committee received 51 submissions, as well as answers to questions on notice, which are listed at Appendix 1.

1.108 The committee held one public hearing for the inquiry. The names of witnesses who appeared at the hearing can be found at Appendix 2.

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75 Dr Benjamin Mitra-Kahn, Committee Hansard, 19 August 2019, p. 12. See also: IP Australia, Supplementary Submission 5.1, p. 6.

76 Senate Standing Committee for the Scrutiny of Bills, Scrutiny Digest 4/19, 31 July 2019, p. 38.

Acknowledgements
1.109 The committee thanks all individuals and organisations who assisted with the inquiry, especially those who made written submissions and participated in the public hearing.
Chapter 2
Views on the bill

2.1 This chapter summarises the 2018 IP Australia consultation on the exposure draft of the bill. It then examines views on the Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019 (the bill) made to this inquiry.

2.2 Submissions to the inquiry predominantly addressed the following issues:
- object of the act;
- phasing out of the innovation patent system (IPS);
- Crown use of patents and designs;
- compulsory licences; and
- use of drawings, graphics and photographs.

IP Australia consultation on exposure draft

2.3 IP Australia consulted on the exposure draft of the bill between 23 July 2018 and 31 August 2018. The following outlines the key issues and views raised during the consultation.

Objects clause

2.4 Many submissions opposed the introduction of an objects clause, raising concerns with the reference to 'technological innovation'; that it would introduce uncertainty and complexity; it is unnecessary; and the reference to 'economic well-being' is unclear.

2.5 Mylan supported the objects clause. However, it questioned the implications drawn from the fact the patents system is primarily economic in nature. In particular, Mylan argued the patent system, although part of the Australian economy, is not separate from the national interest. As such, it is inappropriate to exclude ethical and social considerations from patent considerations. Further, Mylan stated this is inconsistent with the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement, which states patents may be excluded when it is 'necessary to protect ordre public or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment'.

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2.6 IP Australia did not find merit in the claims and reiterated the government’s intention to introduce an objects clause to provide guidance in the interpretation of the *Patents Act 1990* (Patents Act).²

2.7 Specifically, IP Australia stated:

- using the term ‘technological innovation’ is consistent with how intellectual property (IP) is discussed internationally and it is unlikely the courts will interpret the term as being intended to narrow or change the subject matter eligibility threshold for a grant of a patent;
- the long-term clarification provided by the objects clause will be worth any short-term uncertainty; and
- it is clear economic wellbeing is intended to be promoted in Australia.³

**Abolishing the innovation patent**

2.8 Some submissions received during the consultation opposed the abolition of the IPS, others commented on the transitional arrangements. IP Australia stated no significant new evidence on the value of innovation patents was presented in submissions that had not already been considered by the Productivity Commission (PC) and the government. Further, IP Australia is confident the transitional provisions ‘strike a good balance between all relevant interests without adversely affecting existing rights’.⁴

**Crown use of patents and designs**

2.9 Submissions received by IP Australia were mostly supportive of the Crown use provisions. One submission suggested the amendment would provide the government with a broad mandate to interfere with the rights of patent and design owners. IP Australia is of the view the ‘primary responsibility’ test clarifies circumstances in which Crown use can be invoked. Further, under the legislation, the rights of patent and design owners will be better protected due to increased certainty and the addition of ministerial oversight.⁵

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2.10 However, drawing upon evidence provided in some submissions, IP Australia made some minor technical changes to provide greater clarity and certainty of the operation of some provisions.\(^6\)

**Compulsory licencing of patents**

2.11 The majority of submissions supported the compulsory licencing proposals. Those that objected questioned the need for change, and whether the provisions were consistent with Australia’s international obligations, particularly under the Australia United States Free Trade Agreement (AUSFTA). IP Australia reiterated the PC’s recommendation that the compulsory licencing of patents provisions should be clarified to provide greater certainty and transparency, and disagreed that the provisions were incompatible with international agreements.\(^7\)

2.12 IP Australia made a number of minor drafting amendments in response to suggestions from stakeholders.\(^8\)

**Inventive step**

2.13 The exposure draft of the bill contained ‘Part 1—Inventive step’, intended to strengthen the inventive step requirements for standard patent applications. This was a response to recommendation 7.2 from the 2016 PC inquiry report, and closely related to both recommendations 7.1 and 8.1.\(^9\)

2.14 IP Australia noted the government remains committed to accepting the PC’s recommendation and raising the requirements for the inventive step.\(^10\)

2.15 However, submissions to IP Australia’s consultation suggested the proposed changes to the legislation and the bill’s Explanatory Memorandum (EM) would not achieve the intended outcome of sufficiently raising the threshold for the inventive step. This is because the wording was not sufficiently different to that which exists currently, and the courts may not have sufficient regard to the EM when considering the proposed inventive step changes.\(^11\)

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2.16 The government has decided to postpone changes to the inventive step requirements, and associated 'prior art base' provisions to allow for further consultation and reformulation.\(^\text{12}\)

**Inquiry into the bill**

**Object of the Act**

2.17 Submissions to this inquiry raised three key concerns with the proposed objects clause:

- the reference to 'technological innovation' will affect what can be patented;
- the clause will introduce uncertainty and complexity; and
- economic wellbeing is difficult to define and quantify.\(^\text{13}\)

**Technological innovation**

2.18 Some submissions argued the term 'technological innovation' could change what is considered patentable in Australia. It could result in certain types of innovations and subject matter being excluded from patent protection.\(^\text{14}\)

2.19 Davies Collison Cave suggested the term could exacerbate what they regard as existing restrictive interpretations. For instance, they argue:

> Examiners of the Australian Patent Office are currently applying a restrictive interpretation of the Federal Court decision in RPL Central to exclude a range of software inventions on the basis that they are simply not sufficiently technological and relate more to schemes or plans. Given all software executes a series of processing steps; it is too easy to classify any software as a scheme.\(^\text{15}\)

2.20 The Australian Chamber of Commerce and Industry (ACCI) similarly stated some items, such as information technology methods for management, may be at risk of becoming excluded from the patent system.\(^\text{16}\)

2.21 Knowledge Commercialisation Australasia argued the introduction of 'technological innovation' could result in the eligibility threshold for grant of the patent being used to narrow or change the subject matter.\(^\text{17}\)


\(^\text{15}\) Davies Collison Cave, *Submission 37*, p. 1.

\(^\text{16}\) Australian Chamber of Commerce and Industry, *Submission 7*, p. 3.

\(^\text{17}\) Knowledge Commercialisation Australasia, *Submission 11*, p. [1].
2.22 Medicines Australia stated Australia’s Federal Court has warned against introducing requirements that could restrict the application of the patent system and questioned whether a patentable process must result in the application of science and technology on the basis that what constitutes ‘science and technology’ changes over time as a consequence of the unpredictability of the advances of human ingenuity.18

2.23 IP Australia has previously responded to these claims, stating ‘technological innovation’ is consistent with the terms in which intellectual property is discussed internationally, including in the wording of Article 7 of the TRIPS agreement.19

2.24 Further, IP Australia argues the ordinary meaning of the term ‘technological’ is ‘the application of scientific knowledge for practical purposes’ and it is unlikely the courts will depart from this ordinary meaning. As such, it is unlikely simple mechanical inventions of life sciences inventions will not be considered ‘technology’.20

2.25 IP Australia also disputes that the courts will interpret the term as being intended to narrow or change the subject matter eligibility threshold for a grant of a patent, in the absence of some explicit provision to do so. IP Australia stated:

The test for patentable subject matter in Australia is whether or not the invention is a ‘manner of manufacture’ under paragraph 18(1)(a) of the Patents Act, and this provision remains unchanged. For example, software patents would continue to be assessed according to this test.21

Uncertainty and complexity

2.26 Medicines Australia argued certain phrases in the objects clause—such as ‘promotes economic wellbeing’ and ‘balances over time the interests of producers, owners and users of technology and the public’—are highly subjective.22

2.27 The Law Council of Australia (Business Law Section) questioned the need for an objects clause and suggested the proposed clause introduced ambiguity. In particular, the council suggested the phrase ‘and the transfer and
dissemination of technology’ could be used to both support and deny a patent.  

2.28 In responding to submissions to its exposure draft process, IP Australia stated the role of the objects clause is to provide guidance in the interpretation of the Patents Act. It is not intended to provide a ground to challenge a patent on the basis of its subject matter, or override existing Australian jurisprudence on patentable subject matter. Rather, the intent is to provide clarity and certainty in the legislation by stating the underlying purpose of the patents system in Australia. 

2.29 Dr Hazel Moir agreed, stating:

An objectives clause provides guidance to patent decision makers about how to handle the central paradox of patent policy—the conflict between a monopoly grant to encourage invention and the impact of that monopoly in discouraging invention and imposing unnecessary costs on consumers and taxpayers. This central conflict is magnified by the impact monopolies have on rent-seeking behaviour.

2.30 However, Dr Moir suggested the proposed objects clause does not address the issue of balance in patent policy: ‘inventions merit lengthy monopolies only if they are induced by the patent system and offer a net benefit to society [emphasis in original]’. She argued there is no point having an objects clause that provides ‘so little useful guidance to patent decision makers’ to act in the interests of the public.

**Economic wellbeing**

2.31 Macquarie University stated the objects clause could potentially require patentees to generate evidence about how their inventions promote economic wellbeing. Similarly, Medicines Australia noted the long-term economic impact and utility of a patent may take years to understand.

2.32 However, the EM makes clear the objects are not new and reflect the existing goals of the patent system. Further, it states the objects clause:

...will not have any effect on the existing requirements for the grant of a patent. The elements to be considered when assessing an application for a patent are clearly set out in the Patents Act and existing case law, and the objects clause is not intended to alter this. For example, patentable subject

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26 Dr Hazel Moir, *Submission 30*, p. 3.

27 Macquarie University, *Submission 22*, p. 2; Medicines Australia, *Submission 35*, p. 3.
mater will continue to be assessed in accordance with section 18 of the Patents Act.28

Committee view
2.33 The committee agrees the objects clause is not new in substance and simply reflects the existing goals of the patent system.

2.34 The committee is of the view the objects clause constitutes current best practice in legislative drafting and will provide a valuable statement of the overarching framework for the patent system to guide decision makers and the community.

Innovation patents
2.35 IP Australia’s guide to applying for patents explains there are presently two types of patents in Australia:

- a standard patent that gives long-term protection and control over an invention. It lasts for up to 20 years (or up to 25 years for pharmaceutical substances); and
- an innovation patent that is a relatively quick and inexpensive way to protect an incremental advance on existing technology rather than a ground-breaking invention. Protection lasts for a maximum of eight years.29

2.36 There are, however, three types of applications: provisional applications, complete applications, and international applications. Provisional applications will be discussed further below. Complete applications include applications for a standard patent and an innovation patent. International applications are a way to apply for patents in different jurisdictions simultaneously. They are also known as Patent Co-Operation Treaty applications.30

2.37 The committee received several submissions supporting the phasing out of the IPS, though some concerns were expressed over the length of the transition period.31

Opposition to phasing out the innovation patent
2.38 Many submissions to the inquiry raised concerns with the phasing out of the IPS. As explained by UNSW Knowledge Exchange, these concerns reflect the nature of research and development processes in small- to medium-sized

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31 See: Cochlear/ResMed, Submission 6, p. [1]; Knowledge Commercialisation Australia, Submission 11, p. [1]; Dr Hazel Moir, Submission 30, p. 6; U.S. Chamber of Commerce, Submission 38, p. [2].
enterprises (SMEs)—characterised by incremental, small steps that are nevertheless commercially significant for the companies concerned.32

2.39 Redarc stated:

The substantial investment which we make into research and development and smart manufacturing in Australia is underpinned by the present patent system. Innovation is not necessarily ground breaking. We develop smart products that are better than our competitors and more user friendly for our customers. This involves incremental steps of inventiveness which, while attracting innovation patent protection, may not qualify for a standard patent.33

2.40 Those who support the present system argue the innovation patent allows businesses to proceed with confidence so they can protect their invention and obtain a return on their investment in research and development. This is particularly the case in situations where there is only short-term market value, such as fast-moving consumer goods.34

2.41 The innovation patent provides the protection needed to confidently demonstrate products to potential commercial partners, investors, or buyers.35

2.42 Patents are also said to level the playing field by affording protection to SMEs in the face of potential competition from large corporations who can out-compete emerging rivals by copying an innovation and using their superior marketing and distribution channels.36

2.43 Bend-tech explained:

…our innovations regularly make incremental improvements on OEM [original equipment manufacturer] products. If we are unable to protect these innovations, the OEM will simply incorporate the improvement into their product. In this way we will lose significant business to large international companies.37

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33 Redarc, Submission 36, p. [3].

34 Hartman Group, Submission 2, pp. [1–2]; 4 Ken, Submission 21, p. [1]; Sunbeam Corporation, Submission 24, p. [1]; Swivelpole, Submission 31, p. [1]; Conplant, Submission 32, p. [1]; ConstructAMesh, Submission 37, p. [1].

35 Therapytrike, Submission 9, pp. [1–2]; Dr Guru Iyngkaran, Submission 26, pp. [1–2]; Associate Professor Edmund Tse, Submission 27, pp. [1–2]; Rhino-Rack, Submission 43, p. [3].

36 Dr Mar Summerfield, Submission 33, p. 6.

37 Bend-tech, Submission 20, p. [1]. See also: Earthsafe, Submission 18, p. [2].
The following table provides an explanation of the major differences between a standard patent and an innovation patent.

### Table 2.1 Major differences between standard and innovation patents

<table>
<thead>
<tr>
<th></th>
<th>Innovation Patent</th>
<th>Standard Patent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Invention must:</strong></td>
<td>Be new, useful and involve an innovative step</td>
<td>Be new, useful and involve an inventive step</td>
</tr>
<tr>
<td><strong>The application should include:</strong></td>
<td>A title, description, up to five claims, drawings (if applicable), an abstract and forms</td>
<td>A title, description, any number of claims, drawings (if applicable), an abstract and forms</td>
</tr>
<tr>
<td><strong>A patent is granted if:</strong></td>
<td>The application satisfies formalities requirements (note a 'granted' innovation patent cannot be enforced)</td>
<td>The application is examined and found to satisfy the requirements of the Patents Act</td>
</tr>
<tr>
<td><strong>Examination:</strong></td>
<td>Optional: Examination can be requested by the patentee or a competitor to clarify legal rights</td>
<td>Mandatory: as certain requirements must be met before patent is granted</td>
</tr>
<tr>
<td><strong>Certification:</strong></td>
<td>Must comply with certain requirements as determined by an examiner. Only after certification can the patent be enforced</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Australian Official Journal of Patents</strong></td>
<td>Publication at grant and again at certification</td>
<td>Publication 18 months from priority date and again at acceptance</td>
</tr>
<tr>
<td><strong>Protection period:</strong></td>
<td>Eight years, if annual fees paid</td>
<td>20 years, if annual fees are paid(^{38})</td>
</tr>
<tr>
<td><strong>How long does the process take?</strong></td>
<td>One month for grant; six months if an examination is requested</td>
<td>Six months to several years depending on circumstances</td>
</tr>
<tr>
<td><strong>How much does it cost?</strong></td>
<td>Approximately $1,500 including maintenance fees over 8 years (not including advisor fees)</td>
<td>Approximately $9,000 including maintenance fees over 20 years (not including advisor fees)</td>
</tr>
</tbody>
</table>

\(^{38}\) Or up to 25 years for pharmaceuticals.

*Source: IP Australia*
2.45 Submissions highlighted several characteristics of innovation patents that make them of value to SMEs and their research and development model, including:

- quick to obtain;
- low cost;
- provide focussed protection;
- protect inventions that do not satisfy the inventive step requirements for a standard patent;
- allow companies to enforce their intellectual property rights within Australia [providing they have certified the patent]; and
- assist companies in applying for the equivalent of innovation patents in other countries via modified examination.40

2.46 The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) argued the low innovative step requirements for an innovation patent recognise commercial value can be obtained from comparatively simple inventions. That the purpose of innovation patents is to protect commercial advantage was also suggested by the Australian Automotive Aftermarket Association.41

2.47 Redarc, and others, are of the view removing the innovation patent will reduce research and development and the ability to enforce IP rights because the alternative, pursuing a standard patent, is more difficult, uncertain, time-intensive and expensive. Without the ability to protect inventions through an innovation patent, the company is of the view it will be more vulnerable to competition, particularly from overseas.42

Support for reforming the innovation patent

2.48 Some submissions acknowledged the shortcomings of the system, but argued it can be improved by:

- addressing its underutilisation;
- dealing with the existence of uncertified innovation patents that create uncertainty;
- raising the innovative step requirements;


41 IPTA, Submission 50, p. 4; Australian Automotive Aftermarket Association, Submission 48, p. 1.

42 Redarc, Submission 36, p. [3]. See also: CTA, Submission 3, p. [1]; CosmosSolar, Submission 16, p. [1]; 3D Living, Submission 25, p. [1].
• limiting innovation patent divisional applications; and
• modifying the remedies available for infringement.

2.49 Dr Summerfield and others stated Australian businesses make poor use of the patent system when compared to innovators of Australia's major trading partners. This is of concern at a time when innovation and ownership of intellectual property is increasingly important to Australia's economic success. The streamlined and lower-cost entry point provided by the innovation patent, in combination with other measures such as education and awareness programs, can play a role in improving Australian business commercialisation of valuable innovations.43

2.50 Dr Summerfield argued IP Australia could stop calling an uncertified innovation filing a 'patent'; and could require applicants wishing to maintain an innovation patent to request examination within a specified time period. Further, he suggested several ways the innovative step could be raised, short of the inventive step required under a standard patent. Dr Summerfield is of the view the innovation patent can be leveraged to provide greater benefits to Australian SMEs. The Law Council of Australia made similar representations.44

2.51 The Law Council of Australia also suggested limiting the circumstances in which divisional innovation patents can be filed, as the current process is potentially open to abuse. Establishing a limit would help address the issue whereby innovation patent owners divide out innovation patents from pending standard patent applications so as to target alleged infringing activities.45

2.52 As to remedies for infringement, the Law Council of Australia argued for limiting the availability of damages, or the accounting of profits, to infringements of an innovation patent occurring after the official publication of the claims that have been infringed. This would address the situation where an owner of an innovation patent is able to claim damages for infringement dating back to the effective date of the innovation patent. If the patent results from a divisional application, this potentially takes the date back to the date when the patent was pending and prior to its publication.46

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43 Dr Mark Summerfield, Submission 33, p. 7. See also: Mr John Gibbs, Submission 4, p. [1]; Australian Chamber of Commerce and Industry, Submission 7, p. 2; AusBiotech, Submission 12, p. 3; University of Sydney, Submission 17, p. [1]; IPTA, Submission 50, p. 7.

44 Dr Mark Summerfield, Submission 33, pp. 13–14. See also: Macquarie University, Submission 22, p. 1; IPTA, Submission 50, p. 7; Law Council of Australia, Submission 49, pp. 2–3.

45 Law Council of Australia – Business Law Section, Submission 48, pp. 2–3.

46 Law Council of Australia – Business Law Section, Submission 48, p. 3.
2.53 Dr Summerfield cautioned against drawing conclusions about the efficacy of the innovation patent from the fact the majority of innovation patent applications come from overseas, predominantly China. He suggested Chinese companies obtain innovation patents in Australia for the purpose of receiving Chinese government cash incentives. As many Chinese applicants are interested only in obtaining the initial patent certificate, most are never certified because there is no interest in enforcing the patent. Neither do such applicants have interest in expending further funds on maintaining the patent beyond the first 24 months, at which time annual maintenance fees come payable. Dr Summerfield is of the view that because these applications are short-lived and of no economic or commercial significance in Australia, they 'should be disregarded in any serious analysis of the effectiveness, and potential, of the innovation patent system', and in any case, can be readily deterred.47

Case for phasing out the innovation patent system

Incentive for research and development and other correlations

2.54 IP Australia, drawing upon a range of studies, argued the IPS does not deliver for Australian SMEs and further, does not deliver the purpose for which it was established—to incentivise research, development and innovation in Australia.48

2.55 IP Australia studied innovation patents filed in Australia over a 14-year period and the firms that filed them, and compared these firms to those that did not file innovation patents. Their research found:

...firms that file innovation patents don't have higher incomes than firms that don't, meaning that if you get an innovation patent it doesn't help your revenues. Firms don't do more R&D [research and development], and they don't live longer if they certify their patents. That means that the system isn't providing a monopoly right or an incentive for the companies that are getting them.

It is, however, creating a lot of uncertainty for other companies, because you have all these uncertain rights sitting around that may or may not be enforceable because people choose not to certify their patents. On top of that has come a strategy where you use innovation patents as a way of suing companies; often they'll be bigger players suing smaller players. That was never the intention of the system, but it’s become part of the service offering of the system.49

47 Dr Mark Summerfield, Submission 33.1, p. 2. See also: Macquarie University, Submission 22, p. 1.
48 Dr Benjamin Mitra-Kahn, Committee Hansard, 19 August 2019, pp. 10, 12, 15. See also: Cochlear/ResMed, Submission 6, p. [2].
49 Dr Benjamin Mitra-Kahn, Committee Hansard, 19 August 2019, p. 11. See also: p. 12. Mr John Gibbs also acknowledged innovation patents were used as a strategic litigation tool. Mr John Gibbs, Committee Hansard, 19 August 2019, p. 5. See also: IP Australia, Supplementary Submission 5.1, p. 6.
2.56 IP Australia also showed that while firms in the manufacturing sector that file innovation patents invest more in research and development than other manufacturing firms, the same holds for standard patent applications. But in terms of standard patents, this relationship holds true across a broader set of industries. According to IP Australia, the innovation patent by itself has no correlation with firms' sales growth and no impact on market entry rates across industries.\(^{50}\)

**Low usage**

2.57 Further, IP Australia identified low usage of the innovation patent. Australian SMEs typically file around 400 innovation patents per year, with approximately 70 [17.5 per cent] certified to achieve enforceable rights. In comparison, Australian SMEs file between 1,000 and 1,400 standard patents each year. Between 2011 and 2017, Australian SMEs received between three and ten times as many enforceable standard patents in a given year in comparison to innovation patents.\(^{51}\)

2.58 Over the past 18 years, IP Australia found only 23 Australian SMEs were 'moderate' users of the innovation patent, meaning they obtained at least five innovation patents and certified at least one.\(^{52}\)

**Standard for inventiveness**

2.59 With regard to the lower standard for inventiveness cited by submitters as the key point of value for innovation patents, the PC found:

> The low innovative threshold has proven more harmful than helpful, including (perversely) for SMEs. It has encouraged a multitude of low value patents, covering everything from a pet bed to a pizza box that converts to a bib. This, in turn, has reduced the credibility that patents provide for attracting finance for commercialisation, and created uncertainty for other innovators who are unsure whether they are infringing on another party's patent. Patent attorneys openly advertise ways in which users can game the system, including to improve their bargaining position in patent disputes and to frustrate entry by competitors.\(^{53}\)

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\(^{50}\) IP Australia, *The Economic Impact of Innovation Patents*, IP Australia Economic Research Paper 05, 2015, p. 3.

\(^{51}\) Dr Paul Gardner, Acting Director Policy & Legislation, IP Australia, correspondence received 19 August 2019; IP Australia, *Submission 5*, p. 9; IP Australia, *Supplementary Submission 5.1*, pp. 2, 7–8.

\(^{52}\) Dr Benjamin Mitra-Kahn, *Committee Hansard*, 19 August 2019, pp. 10–11.

Alternatives

Mixed IP strategy

2.60 Rather than relying on the innovation patent to protect innovation, IP Australia emphasises the utility of a mixed IP strategy. IP Australia pointed out trademarks, rather than patents, are the main area of intellectual property protection for SMEs. IP Australia research has indicated trademarks, in combination with secrecy and speed to market are more valuable to SMEs than the patent system or the IPS.

2.61 The PC has also encouraged businesses to consider a broader intellectual property strategy and identified a number of ways innovators can protect their intellectual property, including through patents, copyright, trademarks, and registered designs that protect the appearance of a product, including its shape, configuration, pattern and ornamentation.

2.62 The PC examined international studies that showed, except in a few industries (such as pharmaceuticals, specialised machinery and instruments, and chemicals), patents are seldom the most important way for innovators to obtain a return on their investment. Lead-time and superior sales and service are identified as the most important mechanisms through which innovators obtain a return on their investment.

Provisional applications and standard patents

2.63 For SMEs who wish to pursue patents, IP Australia suggests companies consider making greater use of provisional applications for a standard patent. A provisional application, which applicants can currently lodge for innovation and standard patents, establishes a priority date. Whilst it does not provide patent protection, a provisional application is useful in highly competitive industries with constant innovations.

2.64 Applicants have twelve months from the priority date to file a complete application. The cost of a provisional application is $110 (in comparison with $180 for filing an innovation patent application). If the company decides to

54 Dr Benjamin Mitra-Kahn, Committee Hansard, 19 August 2019, p. 12.
55 Dr Benjamin Mitra-Kahn, Committee Hansard, 19 August 2019, p. 16.
pursue the application to a standard patent application, a further $370 is payable.  

2.65 IP Australia highlighted a number of benefits SMEs could gain from filing a provisional application for a standard patent:

…it allows for a cheaper way for a business to secure a priority claim for their innovation, and a 12 month period to test the market, undertake further research, secure investment, and determine if they wish to pursue a standard patent.  

2.66 Although innovation patents are typically granted within a month, to obtain an enforceable right, they must be certified. This process takes approximately two months once a request is received, and costs $500. In comparison, the examination fee for a standard patent is $490. Examination of a standard patent takes on average 12 months. 

2.67 However, companies can obtain a free expedited examination of a standard patent which takes eight weeks—meaning a standard patent can be obtained in a similar timeframe to an innovation patent.

2.68 Evidence to the inquiry suggested companies currently pursuing innovation patents would not find securing a standard patent significantly more difficult on account of the low inventive step requirements of the standard patent, meaning most applications that qualify for an innovation patent will also likely qualify for a standard patent.

2.69 For instance, Dr Moir stated there is an 'absence of any genuine inventiveness requirement in the standard patent system … the quantum of inventiveness required for grant of a standard patent in Australia is close to zero'.

2.70 That the inventiveness requirement for a standard patent in Australia is low was a key aspect of the PC’s 2016 inquiry report. The PC stated:

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59 Dr Benjamin Mitra-Kahn, Committee Hansard, 19 August 2019, p. 14. IP Australia acknowledged the attorney cost for an innovation patent is approximately $6,000 and $10,000 for a standard patent.

60 IP Australia, Supplementary Submission 5.1, p. 4.


64 Dr Hazel Moir, Submission 30, p. 6.
...the required minimum advance over the prior art in Australia is a mere ‘scintilla of invention’, which is highlighted by some patent attorneys and referenced in IP Australia’s Patent Examiners Manual.65

2.71 As noted above, however, the government remains committed to raising inventive step requirements for standard patents on the grounds the current standard is too low.66

2.72 Nevertheless, Dr Moir also argued:

If a firm has a genuine invention (i.e. something that an expert would recognise in the real world as an invention, not something that meets the very low official nonobviousness standard), then a patent might be useful—and will certainly be granted.67

2.73 IP Australia stated a further advantage of a standard patent is it gives a company an enforceable right it can use to apply for patents in other jurisdictions [internationally]. This is not possible with an innovation patent, which can only be enforced in Australia, and only once it has been certified.68

Assistance for SMEs

2.74 As to arrangements to assist SMEs in the absence of an IPS, both the ACCI and the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) called for measures to assist SMEs enforce and defend their intellectual property rights. In particular, the ASBFEO called for a dedicated small business support service to provide education and training, improved navigability, reduced fees, a truncated patent assessment process, and access to simplified dispute mechanisms.69

Committee view

2.75 The committee acknowledges a small number of Australian SMEs use the IPS to protect their intellectual property rights in Australia.

2.76 The committee is of the view Australian SMEs protecting their intellectual property benefit from taking a strategic and diversified approach.

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67 Dr Hazel Moir, Supplementary Submission 30.1, p. [1].

68 Dr Benjamin Mitra-Kahn, Committee Hansard, 19 August 2019, pp. 14, 16; IP Australia, Supplementary Submission 5.3, p. 11.

69 Australian Small Business and Family Enterprise Ombudsman, Submission 1, p. [1]; Australian Chamber of Commerce and Industry, Submission 7, p. 2.
2.77 The committee notes in responding to the PC inquiry report recommendations, the government agreed more targeted assistance to SMEs would better achieve the objective of stimulating innovation.\textsuperscript{70}

2.78 The committee acknowledges IP Australia’s current outreach work with start-up companies, universities, and small business organisations. The committee encourages IP Australia to consider the suggestions made by ACCI and ASBFEO to develop a targeted program to educate and assist SMEs in adopting diversified approaches to protecting their intellectual property.

\textit{Crown use of patents and designs}

2.79 Two issues were raised with regard to Crown use of patents and designs:

• potential expansion of Crown use; and
• remuneration.

\textbf{Expansion of Crown use}

2.80 Medicines Australia raised concerns the bill, by expanding the definition to services that governments have ‘primary responsibility’ for providing or funding, will potentially broaden Crown use beyond limited and exceptional circumstances. In so doing, it could erode the rights of patent holders and discourage investment in research and development. It recommended the bill be amended to make clear the provisions only apply in cases where Crown use is consistent with international treaties, including TRIPS.\textsuperscript{71}

2.81 IP Australia has previously responded to this concern, stating the amendments will not provide the government with a broad mandate to interfere with the rights of patent and design owners. It is of the view the ‘primary responsibility’ test clarifies the circumstances in which Crown use can be invoked, and in so doing, better protects the rights of patent and design owners, in particular by adding ministerial oversight.\textsuperscript{72}

\textbf{Remuneration}

2.82 Dr Dimitrios Eliades recommended, with regard to remuneration for Crown use, that it be made clear (at the end of section 165(2)) if a patentee is exploiting an invention or taking steps towards the imminent exploitation of the invention at the time the Crown proposes exploitation, the court must consider this when determining the economic value of the exploitation of the invention.


\textsuperscript{71} Medicines Australia, \textit{Submission 35}, p. 4. See also: PhRMA, \textit{Submission 14}, p. 3; US Chamber of Commerce, \textit{Submission 38}, p. [3].

This will mean the patentee is entitled to lost profits, rather than only royalties.\textsuperscript{73}

2.83 Dr Eliades also raised a concern with regard to levelling the playing field between government and patentee in cases of remuneration for Crown use. He noted the current bill does not obligate the Crown to follow the general rule in subsection 163(3) of the Patents Act (and equivalent in the \textit{Designs Act 2003}), which establishes that the exploitation of an invention is not an infringement of a patent if certain activities are completed. The only penalty is the Crown will lose the protection afforded by Crown use provisions and be open to an infringement action—which is itself an expensive and time consuming process for the patentee and may leave the patentee open to a cross-claim for revocation of the patent. In such cases, any determination of terms and remuneration would have to wait for the conclusion of the infringement or revocation proceedings.\textsuperscript{74}

2.84 Dr Eliades recommended that to improve the negotiating imbalance between patentee and government, there should be a greater penalty against the Crown for non-compliance and being found to infringe a patent. Further, with regard to issues that should be considered by a court in determining relief for infringement of a patent (section 122 of the Patents Act), Dr Eliades proposed including any unsuccessful application by the Crown to revoke the grant of a patent or remove the design registration.\textsuperscript{75}

2.85 The Law Council of Australia raised an issue with proposed subsection 165(2) that the court must determine an amount of remuneration that is 'just and reasonable'. The council questioned whether in cases of Commonwealth ministers and authorities, the addition of the term 'reasonable' is inconsistent with the requirement under section 51 of the Constitution that any acquisition of property by the Commonwealth should be on 'just terms' alone. The council noted this limitation does not apply at the state or territory level.\textsuperscript{76}

\textbf{Compulsory licences}

2.86 Submissions identified two key issues with regard to compulsory licences: the public interest test, and remuneration.

\textbf{Public interest test}

2.87 Some submissions raised concerns with the ‘public interest’ test (which replaces the reasonable requirements of the public test in the current legislation), and its open-ended nature.

\textsuperscript{73} Dr Dimitrios Eliades, \textit{Submission 15}, pp. 3–5, 8.

\textsuperscript{74} Dr Dimitrios Eliades, \textit{Submission 15}, pp. 5–8.

\textsuperscript{75} Dr Dimitrios Eliades, \textit{Submission 15}, pp. 5–8.

\textsuperscript{76} Law Council of Australia, \textit{Submission 49}, p. 3.
2.88 The US Chamber of Commerce questioned whether the proposed subsection permitting the court to take into account ‘any other matters the court considers relevant’ would undermine the stated objective of limiting uncertainty.77

2.89 Pharmaceutical Research and Manufacturers of America (PhRMA) agreed, stating there is no definition of what constitutes ‘in the public interest’ and this may potentially broaden the circumstances under which the courts might grant compulsory licences beyond ‘exceptional circumstances’. PhRMA and the Law Council of Australia questioned whether the bill contravenes the AUSFTA.78

2.90 The Law Council of Australia suggested there is no need to introduce a public interest test because the patent system is, in effect, a system designed to promote long-term public benefits (increased innovation and sharing of knowledge), in exchange for short-term costs to the public (exclusive rights for a patentee). It further suggested there are differences between short-term and long-term public interests, creating further complexity.79

2.91 Nevertheless, the Law Council suggested paragraph 133(3)(e) be amended to specify ‘substantial’ public interest. The Law Council is of the view this will help the courts to balance the competing interests.80

Remuneration

2.92 AusBiotech raised concerns about perceived ambiguity around the factors to which the Federal Court must have regard when determining the amount of remuneration to be paid to the patentee.81

2.93 The Law Council of Australia suggested a provision be inserted in paragraph 133(5)(b) to provide a general time frame of 60 days (or such other period as may be specified by the Federal Court) from the date of the order to grant a compulsory licence, for the parties to reach agreement on remuneration prior to the court being able to make a determination on remuneration.82

IP Australia response

2.94 The concerns with regard to compulsory licencing were raised during consultation on the exposure draft and IP Australia responded at the time:

77 US Chamber of Commerce, Submission 38, p. [2].
78 PhRMA, Submission 14, pp. 2–3; Law Council of Australia – Business Law Section, Submission 49, p. 4. See also: Medicines Australia, Submission 35, p. [5].
79 Law Council of Australia, Submission 49, pp. 4–5.
80 Law Council of Australia, Submission 49, pp. 4–5.
81 AusBiotech, Submission 12, pp. 2–3.
82 Law Council of Australia, Submission 49, p. 4.
• the amendments will clarify the operation of the legislation and provide greater certainty and transparency that compulsory licences can only be granted when it is in the public interest to do so [see paragraph 133(3)(e)]; and

• the provisions are consistent with Australia’s international obligations.83

2.95 In its submission to the inquiry, IP Australia further stated the new test would focus on whether Australian demand for a product or service is not being met on reasonable terms, and whether access to the patented invention is essential for meeting the demand. The court will also have to consider whether it is in the broader public interest to grant access to the patent.84

2.96 IP Australia did make several amendments to the legislation following the consultation, including with regard to remuneration and public interest in cases of compulsory licencing. During its consultation, IP Australia did not identify the remuneration concerns raised in this inquiry as of concern.

Committee view

2.97 The committee agrees the amendments introducing a public interest test will improve certainty and transparency for patent holders.

Use of drawings, graphics and photographs

2.98 Macquarie University, Medicines Australia and IPTA raised concerns with amendments in schedule 6 that would extend the existing requirement for standard and innovation patent applications to comply with subsection 40(3A) of the Patents Act, to applications for re-examination, opposition or revocation proceedings, or when amendments are proposed to the specification.85

2.99 Subsection 40(3A) states claims must not rely on references to descriptions, drawings, graphics or photographs unless absolutely necessary to define the invention.

2.100 The organisations argued that in some cases graphics were required to assist in the representation of an innovation and this proposed amendment reduces certainty for patent applicants by potentially expanding the ground upon which existing patents can be challenged and revoked.86


84 IP Australia, Submission 5, p. 10.


86 Macquarie University, Submission 22, p. 2; Medicines Australia, Submission 35, p. [3]; IPTA, Submission 50, pp. 10–11.
2.101 However, the EM makes clear the amendment addresses an oversight in the drafting of the *Raising the Bar Act 2012* and is aligning all stages of the patent life-cycle to be consistent, as was originally intended in that Act.87

Recommendation 1

2.102 The committee recommends that the bill be passed.

Senator Slade Brockman

Chair

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Additional comments from Labor Senators

Innovation patents

1.1 Labor Senators support the overall intent of this bill and recognise the need for changes to the present patents system. However, the evidence provided from a number of parties suggests a significant gap could emerge if the innovation patent is removed without alternative mechanisms being put in place to specifically assist small- and medium-sized enterprises (SMEs) to access the patent system and innovate.

1.2 Medicines Australia in their submission stated:

Australia’s innovation ranking has fallen from 20th in 2018 to 22nd in 2019 on the World Intellectual Property Organization’s (WIPO) Global Innovation Index. Consequently, there is clearly a need for Australia to develop and maintain a strong and stable intellectual property environment...¹

1.3 Submitters, such as the Institute of Patent and Trade Mark Attorneys of Australia (IPTA), were concerned about the government’s failure to propose an alternative system to the innovation patent, stating:

...the Government has not provided innovative Australian businesses with an alternative system to replace the Innovation Patent System when it is phased out.²

1.4 Stakeholders suggested that the current patents system is difficult for SMEs to access and use when developing innovative products or services and engaging in smaller scale research and development. The Australian Small Business and Family Enterprise Ombudsman proposed reforms to enable these issues to be addressed through the standard patent:

In light of the Government’s decision to proceed with the abolition of the innovation patent system, this Office encourages the Intellectual Patent Australia (IPA) to consider ways in which the standard patent system can be administered in such a way that it is made easy for small business to use. This should include the establishment of a dedicated small business support service that provides education and training, improved navigability, reduced fees, truncated patent assessment processes and access to simplified dispute mechanisms.³

1.5 IP Australia also stressed the likely benefits to SMEs arising from simply making more regular standard patent applications should the innovation patent be phased out.⁴ The legislation, however, does not make the application

¹ Medicines Australia, Submission 35, p. [1].
² IPTA, Submission 50, p. 1.
³ Australian Small Business and Family Enterprise Ombudsman, Submission 1, p. [1].
⁴ IP Australia, Submission 5, p. 2.
process or cost for standard patents easier for SMEs, and it does not make any changes to the standard patent process to account for the incremental innovation gains often secured by smaller businesses.

1.6 It is these concerns held by Labor Senators that suggest a real gap is being created by the bill where the innovation patent system once stood.

1.7 Although Ai Group supports the retention of the innovation patent, they did make a pertinent point in their submission regarding the ultimate outcomes that need to be sought:

    While the Innovation Patent has been and remains a useful tool for businesses, ultimately it is the commercial and economic outcomes this tool delivers that we need to secure and build on. As in 2018, we strongly submit that abolition should not proceed until and unless reforms are in place to ensure that intellectual property law meets the commercial needs of innovative SMEs and fully supports Australia’s economic prosperity by providing a suitably affordable, flexible and accessible alternative. Government should work closely with affected businesses to find pathways to this outcome, rather than proceeding with an abolition.5

1.8 The committee report addresses some of the issues in paragraphs 2.77 and 2.78, but they do fall short.

1.9 Labor Senators urge the government to immediately address the need for greater support for Australian SMEs in protecting their intellectual property through the standard patent when the innovation patent is abolished.

1.10 In the government’s response to the Productivity Commission Inquiry into Intellectual Property Arrangements, they expressed that the innovation patent failed in its objective to stimulate innovation for Australian SMEs and that targeted assistance would better achieve that objective.6

1.11 Labor Senators urge the government immediately make public the 'targeted assistance' that will stimulate innovation for Australian SMEs.

Senator Alex Gallacher
Deputy Chair

Senator Jenny McAllister
Senator for New South Wales

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5 Ai Group, Submission 46, p. 2.
Additional comments from Centre Alliance

Creative thinking not evident in plans to abolish the IPS

1.1 This bill, amongst other things, seeks to end Australia’s Innovation Patent System (IPS).

1.2 IP Australia draws upon a range of studies which argue that the current IPS does not deliver for Australian small- to medium-sized enterprises (SMEs). This is in direct contradiction to submissions by SMEs and certainly does not reflect the view and experience of a number of South Australian innovation-based companies that spoke to me personally on the issue.

1.3 IP Australia also suggested that the IPS does not deliver on the intended purpose for which it was established—to incentivise research, development and innovation in Australia. Such commentary shows a disturbing lack of understanding by IP Australia of commercial reality. Companies are motivated to conduct research and development (R&D) for two predominant reasons: because they have an idea that will likely make them money; and because the government offers companies R&D tax concessions which help alleviate the costs and risks associated with research, development and innovation.

1.4 The evidence provided by Mr Gibbs at the hearing was comprehensive and rather disturbing.1

1.5 Mr Gibbs provided evidence showing how patent applicants from Asia have risen from obscurity to dominance in the international patent application system over the course of the last 20 years. He stated, ‘China is now the biggest player in Asia, although Japan and South Korea are also big players’.2

1.6 Mr Gibbs further stated that ‘China recognised the importance of controlling intellectual property ownership’, before advising the committee that China has a regime similar to Australia’s IPS: utility model applications.3 He said:

They are cheap and quick to obtain and they last for a shorter term, whereas standard patents are expensive, take a long time to be granted and last for up to 20 years. By providing both types of patents and encouraging citizens to use them, China has succeeded spectacularly in growing its local ownership of patent rights, and this has translated into extensive ownership of international patent rights.4

1.7 It is clear from the Chinese experience that there is something other than IPS patents that actively discourages R&D in Australia.

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1 Mr John Gibbs, Committee Hansard, 19 August 2019, pp. 1–5.
2 Mr John Gibbs, Committee Hansard, 19 August 2019, p. 1.
3 Mr John Gibbs, Committee Hansard, 19 August 2019, p. 1.
4 Mr John Gibbs, Committee Hansard, 19 August 2019, p. 1.
1.8 Australia needs to be using every tool at its disposal to facilitate the protection of innovations. Mr Gibbs provided concerning evidence on the patent take up rates in Australia. He advised the committee:

   In China, each year, 21 patent applications are filed for every 10,000 residents. In Germany it's 10 per 10,000, in the US it's nine, in the UK it's three, in New Zealand it's two and in Australia it's just 1.44, including innovation patents. If innovation patents were abolished, the figure for Australia would drop to 1.02.\(^5\)

1.9 Importantly, he went on to say:

   In my opinion, the Australian government should be taking steps to improve Australia’s future economic position by increasing the ownership of patents by Australians. If you’re looking for reasons why Australia's productivity has been stagnating, then the number of Australian owned patents per capita is a key indicator. In my opinion, the abolition of innovation patents would be a step in the wrong direction.\(^6\)

1.10 I and many South Australian companies agree with Mr Gibbs. In response to direct questioning, IP Australia confirmed there are no financial savings with shutting down the IPS.\(^7\)

   Senator Gallacher: Is there a cost here, a saving, if you get rid of the innovation patents? Do you save money?

   Dr Mitra-Kahn: We don’t save money.\(^8\)

1.11 It makes no sense to shut down the IPS when it is useful and valued by SMEs and, especially, if retaining the IPS costs nothing.

1.12 There’s a certain arrogance of officials, or indeed many politicians for that matter, who have little if any experience of research, development or business and who enjoy regular pay in their bank accounts courtesy of the taxpayer, dictating to entrepreneurs and businesses what’s best for them.

**Recommendation 1**

1.13 That provisions repealing the IPS be removed from the bill.

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7 Dr Benjamin Mitra-Kahn, *Committee Hansard*, 19 August 2019, pp. 13, 17.
8 *Committee Hansard*, 19 August 2019, p. 13.
## Appendix 1
### Submissions

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Appendix 2
Public hearings

Monday, 19 August 2019
Canberra, ACT

Mr John Gibbs, Private capacity

Council of Small Business Australia
• Mr Peter Strong, Chief Executive Officer

IP Australia
• Dr Paul Gardner, Acting Director, Legislation section
• Dr Benjamin Mitra-Kahn, General Manager, Policy and Governance