

# Submission to IP Australia's Review of the Patent System

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## Getting the Balance Right

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**Intellectual Property Research Institute of Australia  
(IPRIA)**

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The Intellectual Property Research Institute of Australia (IPRIA) is a national centre for multi-disciplinary research on the law, economics and management of intellectual property. It is based at the University of Melbourne, and is a joint venture of the Faculty of Law, the Faculty of Economics and Commerce, and the Melbourne Business School.

IPRIA was established in 2002 as part of the Federal Government's Innovation Statement, *Backing Australia's Ability*. IPRIA's research focuses on ways to improve the protection, management and exploitation of intellectual property by business, research institutions and other users of the IP system, and on supporting high quality policy development by government in areas relating to intellectual property. It seeks to use the outcomes of its research to create and contribute to public debate on key issues relating to intellectual property. Part of IPRIA's mission is to provide objective contributions to law reform efforts.

This submission was prepared by **Associate Professor Beth Webster**, Director, IPRIA; **Dr Chris Dent**, Senior Research Fellow, IPRIA; and **Dr Paul Jensen**, Senior Research Fellow, IPRIA. Helpful comments were received from **Professor Andrew Christie**.

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## ***Getting the Balance Right***

### **1. Do you agree in principle with the proposals outlined in this paper?**

The consultation paper issued by IP Australia proposes changes involving three principles:

- a. Aligning Australian patent standards with other major jurisdictions (i.e. harmonization);
- b. Raising the standard of application required for patentability; and
- c. Increasing the certainty of the validity of the patent.

Our response provides general comments on each of these three issues.

#### ***a. Harmonisation of International Standards***

All other things considered, the more consistent Australia's patenting standards and procedures are with other jurisdictions in the world, the lower the cost to businesses operating in global input, output and labour markets. Since the relative size of the Australian economy is small, Australian businesses need to operate globally if they wish to be internationally competitive. To aid this need, local regulators should make cross-national regulations and standards as seamless as is reasonable. There would have to be exceptional benefits for Australia for us to not be consistent with other major offices.

There are limited benefits to granting a patent to an inventor in Australia which cannot be matched in other world markets (unless of course, the potential market for the invention is limited to Australia). An Australia-only patent will shelter a local inventor for a short time while he or she develops the invention and goes through the early stages towards market launch. However, if successful, the product or process is likely to be copied in other world markets. In these markets the innovating company will have to resort to non-patent means of appropriation such as trade marks and lead time advantage.

#### ***b. Raising the Patentability Threshold***

All other things considered, there is considerable concern in the US that their standard of patentability is too low. If Australia does have lower standards than the US, then the costs that apply to the US will apply *a fortiori* to Australia. Theoretically, there is an optimal level of inventive step that just balances the costs of granting and rejecting patents according to the level of its inventive step. However, it is difficult to estimate the magnitude of the social costs associated with granting patents too freely and granting patents too parsimoniously.

Given the current level of the inventive step in the US, it has been argued by many that granting patents too easily (i.e. granting patents that should not be granted or committing a Type II error) takes material out of the public domain, thereby increasing transaction costs, increasing the loss of knowledge diffusion, and limiting cumulative research, and provides fertile ground for the construction of patent thickets. Furthermore, if low quality patents are too readily granted, disputes over patent rights will be difficult (and costly) to resolve since the courts will have difficulty evaluating the validity of the patents. On the other hand, rejecting patent applications that should have been granted (committing a Type I error) lowers the incentive to invent but also increases the size of the public knowledge commons.

### ***c. Increasing Patent Validity Certainty***

It is virtually axiomatic that more certainty for business, makes business more efficient. Elsewhere we have argued that a regime involving a high inventive step, a rigorous examination procedure and courts predisposed to affirm the patent office decision involves the lowest Type I and Type II errors and the most certainty for firms (Jensen and Webster 2004). Accordingly, it maximises the incentive to inventors and innovators by giving them the best *ex ante* chance that their investment in an inventive activity will be rewarded with a patent that has a high probability of recognition by rival firms. It also minimises the unfair use of patents by firms to lock other firms out of their technology space. However, this regime may also be more expensive since it requires an expensive examination and opposition process. Counterbalancing this is the fact that this regime probably results in lower enforcement costs since it should be easier to prove infringement given the certainty over the validity of the patent right.

At the other extreme, the worst regime appears to involve a small inventive step, a cursory examination system and a court system that is predisposed to affirm patents. Such a system may be inexpensive to administer but is potentially deleterious to the incentive to invent since it heightens unfair competition by affirming numerous bad patents and results in long-running, costly legal disputes. This scenario seems to bear some resemblance to the current patent system in the United States, where some have recently expressed concerns about the effects of bad patents and unfair competition on inventive activity (see Federal Trade Commission 2003 for an overview). In a similar vein, a regime with a high inventive step, a rigorous examination process and a court system which frequently revokes patents may undermine the value of the whole patent system for genuine inventors since their patents may be easily expropriated by rival firms.

In light of our analysis of the issues above, we would support the proposed changes, subject to the following discussion.

## **2. Do you think that the formulations put forward in this paper are the best solutions?**

Much of the content of the balance of IPRIA's submission stems from research into the patent opposition procedure. This work has included interviews carried out with patent attorneys and barristers aimed at better understanding the impact that the legal tests and evidentiary requirements have on the conduct of parties during an opposition. Their responses have provided insight into operation of the patent system more generally.

### ***3.1 Proposed change***

Amend s40 of the Act to:

introduce descriptive support requirements analogous to those applied in other jurisdictions including that the whole scope of the claimed invention be enabled and that the description provide sufficient information to allow the skilled addressee to perform the invention without undue experimentation.

### ***3.2 Proposed change***

Amend s40 and s102 and of the Patents Act to:

explicitly indicate that the requirement for full description is met if the description of the claimed invention was sufficient at the filing date to allow the skilled addressee to perform the invention without undue experimentation.

### ***3.3 Proposed Change***

Amend reg 3.12(1)(b) of the Patent Regulations to:

replace the 'fair basis' requirement for establishing the priority date of claims with a descriptive support requirement analogous to those applied in other jurisdictions, and to that proposed for s40.

IPRIA has no comment to make on these changes beyond the discussion, above, of the benefits of harmonisation<sup>1</sup> and the general point that the greater the clarity of a legal requirement, the greater the compliance with the requirement – with all other things being equal.

### ***4.1 Proposed change***

Amend s7(2) of the Patents Act to :

remove the limitation that common general knowledge be confined to that existing in Australia.

### ***4.2 Proposed change***

Amend s7(3) of the Patents Act to:

remove the requirement that prior art information for the purpose of inventive step must be such that a person skilled in the art could be reasonably expected to have been ascertained, while retaining the requirements that prior art be understood and regarded as relevant. The definition of the prior art base for inventive step will not change.

Preliminary analysis of the interview data arising from interviews conducted with patent practitioners indicates that these two changes may have a positive impact on the conduct of opposition and court proceedings should a patent application or patent be challenged. The gathering of evidence is one of the most cost-intensive aspects of the proceedings, and therefore both of these proposed changes should reduce the expenses incurred by a party in challenging, or defending, a patent or patent application.

The current restriction of common general knowledge to that existing in Australia may be seen to restrict the number of experts available to parties in challenge proceedings. This means, in some circumstances, parties will prepare evidence for an opposition procedure to a court standard (guided by the decision in *3M v Tyco*<sup>2</sup>) instead of the standard necessary for the Patent Office.<sup>3</sup> Where there are a limited number of expert witnesses who can provide evidence as to the common general knowledge in Australia, they are more likely to make the effort to collect the evidence of the expert to the higher standard – no matter what the chance is that the challenge will make it into court (either as an appeal from the opposition decision

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<sup>1</sup> IPRIA has done work examining the impact of the differences in legal tests on the scope of patents granted in Australia and overseas; see, for example, Lim and Christie (2006).

<sup>2</sup> *Minnesota Mining & Manufacturing Company v Tyco Electronics Pty Ltd* (2002) 56 IPR 248).

<sup>3</sup> The Patent Office standard is lower as the Patent Office is not bound by the rules of evidence.

or as a post-grant revocation action). This is because the parties may fear that they will not be able to find another witness if the challenge ends up in court. This fear is the result of the differences in the rules of evidence between the Office and the courts – that is, if they gain the evidence from the witness to the lower standard, they will not be able to go back to the witness if the challenge does go to court (as the evidence and the witness’ testimony may be seen as “tainted” by the court and, therefore, unusable). This means that the parties spend more than they should collecting evidence just in case the challenge goes further (and the evidence suggests that, for most parties, this is an unlikely occurrence). Widening the pool of experts available, then, may reduce the costs to the parties during the opposition phase.

The removal of the requirement for the ascertainment of the prior art may impact on the expense of evidence gathering simply through reducing the amount of evidence that needs to be gathered from the expert witnesses – requiring that witnesses attest to the ascertaining of the information in addition to the understanding the prior art and regarding it as relevant.

### ***4.3 Proposed change***

The proposed change seeks to:

revise the inventive step test to a test where the claimed invention is obvious if it was ‘obvious for the skilled person to try a suggested approach, alternative or method with a reasonable expectation of success’.

IPRIA would support the revision of the inventive step test in such a way as to better harmonise it with that in other jurisdictions; IPRIA, however, does not have any research that suggests that the proposed change is the best alternative. It may be noted that the similarity between the proposed change and the test applied to applications before the European Patent Office provides some support for the proposed change.

### ***5.1 Proposed change***

Amend the Patents Act and/or Regulations to:

include usefulness among the grounds considered during examination and re-examination and clarify that the requirement for usefulness is only satisfied if the patent specification discloses a specific, substantial and credible use for the invention.

IPRIA has no research that indicates that this proposed change is or is not the best formulation for reform. A study of patent litigation does indicate that the ground of lack of utility was only successfully argued once (despite it not being a criterion of examination).<sup>4</sup> This suggests that the previous formulation of the test was not effective limitation on the granting of patents. More work may need to be done to investigate whether the proposed formulation will be a more effective limitation and, in particular, whether this formulation is appropriate for all areas of technology.

### ***5.1 Proposed change***

Amend s45 of the Patents Act to:

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<sup>4</sup> Weatherall and Jensen (2005), p. 278.

include prior use among the grounds considered during examination and re-examination.

IPRIA has not investigated the problems associated with the finding of evidence of prior use. Theoretically, there is sense in allowing examiners to search for such evidence – the concern, though, is the extent to which an examiner can, with confidence, date the evidence relating to prior use. If the fall-back is to be that, in most cases, the evidence will be discounted on the basis that the benefit of any doubt about the date of the evidence must go to the patent applicant, then, this proposed change may have minimal effect on the examination process.

This perspective is supported by the material from the opposition interviews asserting that evidence relating to prior use is difficult to establish (to the satisfaction of the hearings officer) – even where there is the capacity to cross-examine witnesses (a capacity that, according to the interviewees, is not taken advantage of regularly).

### ***5.3 Proposed change***

Amend s98 of the Patents Act to:

expand the grounds for re-examination to all of the grounds considered during normal examination.

IPRIA understands that the re-examination procedure is infrequently used at the moment. The perspectives gained from the interviews into the opposition procedure suggest that this is, in part, because there is no capacity for a hearing under the procedure. This, in turn, suggests that changing the grounds upon which a patent may be re-examined may have little impact on the use of the procedure. If the policy motivation behind the re-examination procedure is a de novo review of the specification, then, there appears little reason for the grounds for examination to not be co-extant with all the grounds considered during normal examination.

### ***6 Proposed change***

Amend the Patents Act to:

clarify that ‘balance of probabilities’ is the standard of proof applied to all requirements during examination, re-examination and opposition proceedings.

This is, from the perspective of IPRIA, the most problematic of the proposed changes. There is some case law that suggests that to have the standard of proof as the “balance of probabilities” for the opposition hearing could pose problems should the challenge end up in a court. The argument is that there may be an “issue estoppel” if the same point is argued (to the same standard of proof) before the hearings officer and a judge<sup>5</sup> – that is, a party may not be able to argue the same point in court if they have already (unsuccessfully) argued it before the hearings officer. This does make a degree of sense from a public policy perspective – as it is not clear that there is a public benefit to allowing parties to fight the same issue (to the same standard) in front of two fora.<sup>6</sup>

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<sup>5</sup> See, for example, *Genetics Institute v Kirin-Amgen* (1999) 92 FCR 106, 111-112; and *Hoffman-La Roche v New England Biolabs* (2000) 99 FCR 56, 66.

<sup>6</sup> Any benefit that arises from such an estoppel has to be considered in terms of the potential differences between having a judge making a decision on the issue and having a hearings officer making the decision. As

An alternative view is that there should be no estoppel because the opposition procedure is conceptually different to a revocation action. That is, an opposition procedure is not an exercise of judicial power while an action to challenge the validity of a patent grant is an exercise of judicial power.<sup>7</sup> If the opposition decision is best conceived of as an administrative decision, it may be that estoppel is not of great concern. Research is continuing into the proper conceptualization of the opposition decision, however, a conclusion based on academic analysis (no matter how empirically informed or rigorous) does not necessarily predict the finding of a court on the same issue. It may be beneficial for legal advice to be sought as to the potential ramifications of such a change.

If the standard of proof has to be different at the opposition stage when compared to a judicial consideration of the validity of a patent, then, it may be that the standard for oppositions should remain as it is. If this is the case, then the standard of proof should remain the same for examination and re-examination.

## References

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- Lim, A. and Christie, A. (2006). "A Comparative Analysis of the Australian Patent Office's Examination of Biotechnology Reach-through Patent Claims", IPRIA Working Paper 09/06.
- Weatherall, K. and Jensen, P. (2005) "An Empirical Investigation into Patent Enforcement in Australian Courts", *Federal Law Review* 33, 239-286.

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there is the potential that an administrative decision-maker would not approach the decision the same way a judicial decision-maker would (given the differences in their training), it is potentially problematic to assume that an estoppel would necessarily be in the interests of the patent system overall.

<sup>7</sup> See Dent (2008) for a discussion of the opposition decision as an administrative act; and Dent (2006) for a discussion of the arguments around the consideration of post-grant opposition as being an exercise of judicial power. The conclusion of the article was that it is likely not to be such an exercise.