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IP Australia
Submission to Senate Economics Legislation Committee Inquiry

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

15 August 2019

Executive Summary

IP Australia is the Australian Government agency responsible for developing the Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019 (the Bill) and is pleased to make the following public submission to the Senate Economics Legislation Committee. This submission covers a summary of the content, origins, consultation and benefits of the Bill.

Overview and origin of the Bill

The intellectual property (IP) system is an important element of the economy because it promotes and incentivises investment in creativity, innovation, research and technology. IP rights have become increasingly important in a globalised world where intangible assets make up the majority of the value of companies. It is critical that the IP system in Australia adapts to this changing landscape to serve Australian innovation and business both at home and abroad.

The Bill represents a commitment from the Government to review and reform our IP arrangements with broad consultation, giving stakeholders an opportunity to reflect on their experiences and ensure that the IP system is balanced, transparent and meeting its objectives.

Key parts of the Bill originate from a series of independent reviews into the IP system, including the Productivity Commission (PC) 2016 inquiry into Australia's IP arrangements, the PC's 2013 inquiry into compulsory licensing of patents, the Advisory Council on IP (ACIP) 2015 review of the innovation patent system and the Senate Standing Committee on Community Affairs 2010 inquiry into gene patents.

IP Australia has consulted extensively on the measures in this Bill, with the key parts having multiple rounds of consultation, most recently in 2017 and 2018. Finally, IP Australia publicly consulted on an exposure draft of the entire Bill in 2018. The final package incorporates measures that respond to stakeholder suggestions and stakeholder input provided throughout this extensive consultation process.

Benefits of the Bill

The measures in the Bill will modernise and improve Australia's IP system and give effect to the Government's responses to a number of PC recommendations from the 2016 PC inquiry (Schedule 1). The benefits of Schedule 1 include reduced uncertainty and lower regulatory costs for small and medium sized enterprises from the phasing out of the innovation patent, and clarity on the purpose of the patent system itself as recommended by the PC and others.

Schedules 2-4 implement the recommendations of the 2013 PC inquiry and will benefit patent and design rights holders who will have more safeguards in place around the Crown use of inventions and designs, where government can access and use patented technology or a design without the authorisation of the rights holder in certain circumstances. The public will benefit from greater clarity around the scope of Crown use, as well as a modern public interest test before a compulsory licence can be issued by the Federal Court for a patentee to grant a licence to another party to exploit a patented invention. The Bill will also make several technical changes to streamline and modernise the administration of the Australian IP system (Schedules 5-8).

If the Committee would benefit from any further information, please contact:

[redacted]

1. The Bill

The Bill amends the *Designs Act 2003* (Designs Act), *Patents Act 1990* (Patents Act) and *Trade Marks Act 1995* (Trade Marks Act) — collectively "the Acts".

The measures in the Bill are divided into eight categories, and correspond to the following eight schedules:

- Schedule 1 – Responses to the PC
- Schedule 2 – Crown use of patents
- Schedule 3 – Crown use of designs
- Schedule 4 – Compulsory licenses
- Schedule 5 – Seals
- Schedule 6 – Specifications
- Schedule 7 – Protection of information
- Schedule 8 – International applications

Schedule 1 – Responses to the 2016 PC report

The PC was asked in 2015 to consider whether Australia's current IP arrangements provide an appropriate balance between access to ideas and products, and encouraging innovation, investment and the production of creative works. The PC published its report in 2016 (2016 PC Report). The Government published its response to the 2016 PC report on 25 August 2017.[1] The PC's recommendations relating to trade marks and plant breeder's rights were implemented in the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018*.

Schedule 1 to the current Bill seeks to give effect to two of the patent-related recommendations in the 2016 PC Report. These are:

- introducing an objects clause into the Patents Act; and
- phasing out the second-tier patent system, the 'innovation patent'.

Schedules 2 and 3 — Crown use of patents and designs

Crown use provisions are intended to be a rarely used safeguard. They allow Australian Federal, State and Territory Governments to access and use patented technology or a design without the authorisation of the rights holder in certain circumstances. An example where this might be necessary is a public health crisis such as a pandemic.

The PC in its 2013 report into the compulsory licensing of patents (2013 PC Report) found that there is uncertainty about when Crown use applies in regard to patents and designs, which could be an impediment to government use of patented inventions. Schedules 2 and 3 to the Bill seek to introduce a number of measures recommended by the PC to improve clarity, transparency and accountability of Crown use.

[1] https://www.industry.gov.au/innovation/Intellectual-Property/Documents/Government-Response-to-PC-Inquiry-into-IP.pdf

Schedule 4 — Compulsory licensing

A compulsory licence is an order made by the Federal Court for a patentee to grant a licence to another party to exploit the patented invention. Compulsory licensing provides a mechanism to prevent the patentee from restricting others from exploiting the invention in the local market, where it has failed to do so itself.

The 2013 PC Report found that the current test for the grant of a compulsory licence to exploit a patented invention is unclear and could be a disincentive for applicants seeking a compulsory licence. Schedule 4 to the Bill seeks to implement the recommendation of the PC to clarify the test for when a court can grant a compulsory licence.

Schedules 5 to 8 — Other measures

These measures are minor amendments which reduce administrative burden for applicants, improve procedural efficiency, or clarify the operation of the existing legislation.

2. Origin of the Bill

Key parts of the Bill originate from a series of independent reviews into the IP system, and all parts of the package have been consulted on extensively. Some parts of the Bill respond to stakeholder suggestions, and stakeholder input was used to shape the final package. Table 1 summarises the origin of each part of the Bill, and the consultation undertaken.

Schedules 1-7 to the Bill were consulted on as part of the Bill exposure draft in 2018, which was developed in close consultation with relevant departments and agencies listed in section 3 and drafted by the Office of Parliamentary Counsel (OPC). Schedule 8 was added to the Bill following consultation on the exposure draft, as it was identified as necessary by OPC during the drafting of amendments to the *Patents Regulations 1991.* Stakeholders were subsequently consulted on the changes to Schedule 8 as part of the consultation on those regulations. Measures contained in the Bill have been open to comment on IP Australia's public Policy Register since 30 August 2017.

Schedule 1 Part 2 of the Bill was originally intended for inclusion in the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018*. The Government decided to defer this measure until this Bill to allow time for further stakeholder consultation.

The original draft of the Bill included amendments to the inventive step provisions of the Patents Act. The Government accepted the PC's recommendation to raise the threshold for inventive step for the grant of a patent. However, during consultation on an exposure draft of the Bill, stakeholders raised concerns that the provisions as drafted would not achieve the intended objective. The Government was persuaded by these submissions and has decided to defer implementation of this recommendation pending further consultation and analysis.

Table 1: Origin and consultation on the Bill

Bill Part:	Origin	Timing	Stakeholder Consultation
Sch. 1, Parts 1-2	PC inquiry into Australia's IP arrangements	2015-16	• Two rounds • Over 600 written submissions • Public hearings and roundtables
Sch. 1, Parts 1-2	Department of Industry, Innovation and Science consultation on the PC report	2016-17	• One round • Over 70 written submissions

Sch. 1 Part 1	ACIP review of patentable subject matter	2010	• Two rounds • Over 50 written submissions • Public hearings and roundtables
Sch. 1, Part 1 and Sch 2-4	Senate Community Affairs Reference Committee inquiry into gene patents	2010	• One round • 78 written submissions • Public hearings
Sch. 1 Part 1	IP Australia's public consultation on the objects clause	2013	• One round • 24 written submissions
Sch. 1 Part 1	IP Australia's targeted consultation on the objects clause	2018	• One round • 4 written submissions
Sch. 1 Part 2	ACIP review of the innovation patent system	2011-15	• Three rounds • Over 100 written submissions • Roundtable discussions
Sch. 1 Part 2	IP Australia's public consultation on the innovation patent system	2012	• One round • 30 non-confidential submissions
Sch. 1 Part 2	IP Australia's public consultation on ACIP's recommendation that the government should consider abolishing the innovation patent system	2015	• One round • 54 written submissions
Sch. 1 Part 2	Exposure draft of Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2017	2017	• One round • 17 written submissions
Sch. 1, Part 1 and Sch. 2-4	IP Australia's public consultation on several Intellectual Property matters: the objects clause; Crown use of patents and designs; and compulsory licensing of patents	2017	• One round • 18 written submissions
Sch. 2-4	PC inquiry into compulsory licensing of patents	2012-13	• Two rounds • 52 written submissions • Public hearings
Sch. 1-7	Exposure draft of the Bill and explanatory memorandum	2018	• One round • 18 written submissions
Sch 1-8	Exposure draft of the regulations and explanatory statement	2018-19	• One round • 6 written submissions

3. Consultation and stakeholder views

The Bill is the result of an extensive consultation process undertaken by IP Australia between 2012 and 2018, and consultation through four independent reviews from 2010 to 2016. IP Australia most recently consulted on an exposure draft of the Bill and associated regulations in late 2018 and published all non-confidential submissions.[2]

Amendments were made to the Bill as a result of the feedback received in the exposure draft process, as outlined in IP Australia's published response to the consultation.[3]

Key independent reviews

- **ACIP Review of the Innovation Patent System (2011-15)**

In this review, ACIP investigated the effectiveness of Australia's innovation patent system in stimulating innovation by Australian SMEs. Due to a lack of empirical evidence available during the review, ACIP initially did not make a recommendation supporting the retention or abolition of the system.[4]

Following this review, at the request of the then Minister, IP Australia produced a report on the economic impact of innovation patents (the IP Australia Economic Report) with data that had not been available until that year.[5] After considering this new information, ACIP released a statement in May 2015 advising that it was likely that the innovation patent was not achieving its objective of stimulating innovation among SMEs and the Government should therefore consider abolishing the system.[6]

The Government responded to this review as part of its response to the PC inquiry into Australia's IP arrangements (discussed below). The Government accepted the recommendations to phase out the innovation patent system and this is reflected in Schedule 1, Part 2.

- **PC inquiry into Australia's IP arrangements (2015-16)**

The PC inquiry was established in response to a recommendation of the Competition Policy Review, for an overarching and independent review of the IP system. The PC commenced its inquiry on 18 August 2015, released an issues paper on 7 October 2015 and then a draft report on 29 April 2016. The PC received over 600 written submissions.

The PC review considered the ACIP report, and the IP Australia Economic Report. The PC also considered an economic study on the innovation patent system commissioned by the Institute of Patent and Trade Mark Attorneys (IPTA) and the National Association of the International Federation of Intellectual Property Attorneys Australia (FICPI) that contested some of the findings in the IP Australia Economic Report.[7] The PC found the evidence in the IP Australia Economic Report to be convincing and consistent with the PC's own independent analysis.

The PC considered reform of the innovation patent system but concluded that there is no way to reform the system that would be effective and beneficial for SMEs. Like ACIP, the PC recommended that the innovation patent system be abolished.

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[2] https://www.ipaustralia.gov.au/about-us/public-consultations/consultation-intellectual-property-laws-amendment-bill-2018
[3] https://ipaustralia.govcms.gov.au/sites/default/files/response_to_stakeholders_bill.pdf
[4] https://www.ipaustralia.gov.au/sites/default/files/final_report.pdf
[5] https://ipaustralia.govcms.gov.au/files/economicimpactofinnovationpatentspdf-0
[6] https://www.ipaustralia.gov.au/sites/g/files/net856/f/statement_on_economic_impact_of_the_innovation_patent_system.doc
[7] https://www.ipaustralia.gov.au/sites/default/files/ficpi_australia_-_ipta.pdf

The Government received the PC's final report on 23 September 2016.[8] The Government released the report for consultation from 20 December 2016 until 14 February 2017. More than 70 submissions were received. The Government's response to the 2016 PC report was released on 25 August 2017,[9] and patent related aspects of this are reflected in Schedule 1, Parts 1-2.

- **Senate Standing Committee on Community Affairs Inquiry into Gene Patents (2010)**

In 2010, following concerns from the community about the effect of patents over genetic materials, the Senate Standing Committee on Community Affairs conducted an inquiry into gene patents. 78 public submissions were received, and the committee held public roundtables in eight locations across Australia. The committee had cross-party representation, and its recommendations were unanimous. Many of the committee's recommendations were implemented in the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012.* The committee recommended the introduction of an objects clause into the Patents Act, and changes to compulsory licensing and Crown use. Those recommendations are reflected in Schedule 1 Part 1 and Schedules 2-4 to this Bill.

- **PC inquiry into Compulsory Licensing of Patents (2012-13)**

In response to the Senate committee report, the former government asked the PC to review compulsory licensing of patents. In 2013, the PC released its report.[10] There were two rounds of consultation in preparing this report, including public hearings, and 52 submissions were received. Several of the recommendations proposed in the report regarding Crown use and compulsory licensing of patents were similar to the recommendations of the Senate committee and are reflected in Schedules 2-4.

Recent Consultation by IP Australia

- **Consultation on several IP matters (2017)**

From 30 August to 17 November 2017 IP Australia consulted on an options papers for IP matters, including the objects clause, Crown use and compulsory licensing as recommended by the PC.[11] Each options paper presented several possible approaches for implementing the relevant recommendation, including two alternatives for wording of an objects clause. 18 submissions were received and are available on IP Australia's website.[12]

The submissions expressed a clear preference for specific options to implement amendments to Crown use and compulsory licensing. IP Australia adopted these options and developed them into Schedules 2-4 to this Bill.

There was no clear consensus on the text for an objects clause. As a result, IP Australia revised the proposed options, developed a further proposal and consulted again with targeted stakeholders including the Law Council of Australia (LCA) and the IP attorney profession peak bodies in early 2018. Stakeholders broadly agreed that the revision was an improvement, and suggested further refinements, some of which were incorporated into the exposure draft.

- **Exposure draft of Bill and Explanatory Memorandum (2018)**

Public consultation on an exposure draft of the Bill and explanatory memorandum was conducted from 23 July to 31 August 2018 on the IP Australia and business.gov.au websites. 18 submissions were received and are available on IP Australia's website.[13]

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[8] https://www.pc.gov.au/inquiries/completed/intellectual-property/report
[9] https://www.industry.gov.au/sites/g/files/net3906/f/government_response_to_pc_inquiry_into_ip_august_2017.pdf
[10] https://www.pc.gov.au/inquiries/completed/patents/report
[11] https://www.ipaustralia.gov.au/about-us/public-consultations/public-consultation-several-intellectual-property-ip-matters
[12] https://ipaustralia.libguides.com/c.php?g=404687&p=4450363%20-%20s-lg-box-wrapper-20509522
[13] https://www.ipaustralia.gov.au/about-us/public-consultations/consultation-intellectual-property-laws-amendment-bill-2018

Stakeholders generally supported the amendments to Crown use and compulsory licensing of patents. However, a number of technical amendments were suggested by stakeholders to improve the clarity and consistency of these provisions. IP Australia revised the Bill to include several of these technical amendments.

The consultation indicated a diversity of views on the phasing out of the innovation patent system. Some stakeholders oppose the abolition of the innovation patent and prefer reform of the system, while others support abolition and submitted that the phasing out process is too gradual and should be accelerated. Noting the diversity of views; the lack of consensus on how to reform the system and the PC's conclusion that reform attempts would be futile, IP Australia has developed the phasing out process to represent a reasonable balance of interests of the different parties.

Existing rights-holders will retain their existing rights and will not be disadvantaged. New innovation patent applications will no longer be able to be filed following a transitional period of 12 months from the date the Bill receives Royal Assent.

A range of IP and legal industry bodies have provided submissions for this Bill, including the IPTA, FICPI, the International Association for the Protection of Intellectual Property (AIPPI), the LCA, and the Law Institute of Victoria.

Consultation on the Bill has been undertaken with the following departments and agencies, all of whom support the Bill:

- Attorney-General's Department
- Australian Competition and Consumer Commission
- Department of Defence
- Department of Foreign Affairs and Trade
- Department of Health
- Department of Home Affairs
- Department of Finance
- Treasury
- Department of Education and Training
- Department of Industry, Innovation and Science.
- Department of the Prime Minister and Cabinet

4. Benefits of the Bill

The IP system is an important part of the economy. It encourages the development of new technologies, products and markets, providing an economic benefit for Australians. The Bill will make improvements to ensure that our intellectual property laws provide an appropriate balance between the rights of the intellectual property owners and the interests of the broader community.

The Bill seeks to do this by implementing the second tranche of the Government's response to the comprehensive PC inquiry into Australia's IP arrangements. The Bill also seeks to make a number of changes to the legislation to clarify the provisions for Crown use and compulsory licensing, as well as technical improvements to the IP legislation.

- **Benefits of Schedule 1, Part 1: Introducing an objects clause into the Patents Act**

The Bill seeks to introduce an objects clause into the Patents Act to provide clarity and guidance about the purpose of the legislation and ensure that the patent system remains adaptable and fit-for-purpose as new

technologies and innovations are developed in the future. Several independent reviews[14] including the 2016 PC report recommended the inclusion of an objects clause, and this has been accepted by the Government.

The objects clause will clarify the underlying purpose of the Patents Act and reduce uncertainty about the operation of the patent system. Courts will also be able to rely on the objects clause to assist in the interpretation of the provisions of the Patents Act, where the meaning of a provision is unclear.

- **Benefits of Schedule 1, Part 2: Commencing the phasing out of the innovation patent system**

A second-tier patent system was introduced in 1979 as the 'petty patent' to promote innovation among Australian SMEs. The 'petty patent' was replaced with the 'innovation patent' in 2001 to address concerns that the 'petty patent' was not being used. There is clear evidence and widespread agreement among stakeholders that the innovation patent does not work.

Evidence available to the Government, including the PC's analysis and the IP Australia Economic Report, shows that most SMEs gain no value from the innovation patent, and are using the standard patent system instead. In 2017, Australian SMEs filed 1264 standard patents compared to 464 innovation patents. While a few SMEs, estimated to be less than 25 in the first 15 years since the 2001 reforms, have used the innovation patent system effectively, the evidence shows that the vast majority of SMEs who file innovation patents never obtain any enforceable rights, allow their right to lapse at the earliest opportunity (rather than pay a $110 renewal fee), never use the system again, and are less likely than others to utilise the IP system afterwards. The evidence also suggests that the system imposes a cost of approximately ten million dollars on Australian SMEs and private inventors.

Evidence also indicates that the system is heavily used by foreign and multinational firms and is being used for undesirable strategic purposes by large companies, causing uncertainty in the marketplace. The PC found that the costs of the innovation patent to the economy outweigh the benefits and that the system imposes a net cost on Australia, and as a result recommended that the system be abolished. The Government accepted the PC's recommendation .

The Bill seeks to commence the phasing out of the innovation patent system by preventing the filing of new applications, while allowing existing filings continue to be in force until their natural expiry date. The phasing out is gradual to ensure that existing rights-holders are not disadvantaged. Australian SMEs will continue to be able to access the standard patent system to protect their inventions.

- **Benefits of Schedules 2 and 3: Crown use of patents and designs**

The 2013 PC Report found that there is uncertainty and a lack of transparency in how Crown use applies to patents and designs. Schedules 2 and 3 to the Bill seek to clarify the circumstances in which Crown use can be invoked, introduce a process of Ministerial oversight, and provide better guidance to the courts on the remuneration standard that should be used in determining the level of compensation to be paid to the rights holder.

These amendments ensure that there is an appropriate balance between the rights of the rights holder and the ability of the Government to ensure that the community's access to technology is not restricted.

[14] Senate Community Affairs References Committee, *Gene Patents,* 2010, available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Completed_inquiries/2010-13/genepatents43/report/index;
Advisory Council on Intellectual Property, *Patentable Subject Matter,* 2010, available at https://www.ipaustralia.gov.au/about-us/public-consultations/archive-ip-reviews/ip-reviews/Review-of-patentable-subject-matter.

- **Benefits of Schedule 4: Compulsory licensing of patents**

Schedule 4 seeks to change the test applied by the courts when determining whether a compulsory license should be granted. The 2013 PC Report found that the current 'reasonable requirements of the public test' creates uncertainty and is unduly narrow. As recommended by the PC, the 'reasonable requirements of the public' test will be replaced with a 'public interest' test.

The new test will 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 be required to consider whether it is in the broader public interest to grant access to the patent. These changes will improve the clarity and certainty of the legislation and improve the balance between the rights of the patent owner and the interests of the broader public.

- **Benefits of Schedules 5-8: Other measures**

These schedules of the Bill seek to make a number of minor changes to the Acts that will correct errors, improve procedural efficiency, reduce administrative burden for applicants, and clarify the operation of the existing legislation.

About IP Australia

IP Australia is responsible for administering Australia's patents, trade marks, designs, and plant breeder's rights systems. As well as granting exclusive rights under the statutes it administers, IP Australia works closely with the Department of Industry, Innovation and Science to advise the Australian Government on IP policy; provides IP information and education services to business and the broader community to increase understanding of the important role IP plays in innovation; regulates the IP attorney profession; and contributes to bilateral and multilateral negotiations and development cooperation programs to promote a more harmonised global IP system.

IP Australia works with professional bodies, business groups and other government agencies and holds regular meetings with our national stakeholder groups to ensure the continuing effectiveness and ongoing improvement of Australia's IP system.