

Julie Dennett
Committee Secretary
Legal and Constitutional Affairs Legislation Committee
Parliament House
CANBERRA ACT 2600

Dear Secretary,

Re: Inquiry into Patent Amendment (Human Genes and Biological Materials) Bill 2010

The recently introduced Patent Amendment (Human Genes and Biological Materials) Bill 2010 is welcome recognition that there is something wrong with our existing patenting arrangements. While not a new concern, as there have been various proposals around since 1990 to exclude gene patents, this is the most recent and covers biological materials broadly such as genes, proteins, biochemicals, fluids and cells. The exciting development in this Bill is its focus on the underlying policy objectives of patents to advance medical and scientific research, and the diagnosis, treatment and cure of human illness and disease. Presumably the proponents are also concerned about the non-medical aspects of patenting, and in particular, the consequences and effects for food and fibre production and consumption.

The Bill provides, in part, for an amendment to the *Patents Act 1990* (Cth) ss 18(1)(a) (standard patent) and 18(1A)(a) (innovation patent), replacing the words:

is a manner of manufacture within the meaning of section 6 of the *Statute of Monopolies*; and

With the words:

is a manner of manufacture within the full meaning, including the proviso, of section 6 of the *Statute of Monopolies*; and

Perhaps surprisingly, a law directed to high technology in 2011 reaches back nearly 400 years to 1623 to a concept of “manner of manufacture” as a way of drawing a distinction between what is, and what is not, patentable. The significance of this nearly 400-year-old law was that it was one of the first pro-competition laws. Its purpose was to rid society of the anti-competitive effects of most patents – these were patents over a trade or industry, patents exempting the holders from laws, and some patents for inventions. The law specifically made all patents ineffective (“utterly void and of none effect”) *except* some patents for specific types of inventions (being “manners of new manufacture”).

While the language of section 6 of the *Statute of Monopolies* (“not contrary to the Law, nor mischievous to the State, by raising Prices of Commodities at home, or Hurt of Trade, or generally inconvenient”) is old, the concepts are well known to modern competition laws. In modern language, only patents for inventions are valid if allowed by law, that don’t increase domestic prices, don’t harm free trade, or should be excluded for public policy reasons. The sad reality of modern patent law is that these broader concerns about the anti-competitive effects and consequences are being ignored, and the shrill voices of the self-interested patent cheer squads are being allowed to dominate.

Remember that a patent is an exclusion from competition that allows the patent holder to both stop others using the invention and decide how the invention is used (or not used). Why this

is a desirable policy in modern times is unclear. There is no shortage of possible explanations – to promote invention, to reward invention, to encourage disclosure, and so on. Each of these may be true and could be a desirable justification. Unfortunately, however, the Australian Governments over the decades have never been clear about exactly what the patent system is supposed to achieve, or subject it to a rigorous pro-competition assessment to determine whether it is achieving any desirable goals. This is important because regulation that does not achieve its desired goal is most likely just more “red tape” and an unwarranted drag (inefficiency) on a modern economy.

Back in the 1990s with the *National Competition Policy*, all legislation and proposed legislation were supposed to be repealed unless it could be clearly demonstrated to achieve an identified purpose. A formal agreement with the States and Territories was reached with the *Competition Principles Agreement* that established a process and time scale for putting the legislation reviews into effect. Henry Ergas undertook an inquiry into intellectual property laws in 2000 including patent, copyright, trade marks and designs laws, under the auspices of the *Competition Principles Agreement* to assess the pro-competition credentials of these laws. The analysis in the attachment (Attachment 1) provides a critique of that Ergas review to demonstrate that the *Patents Act 1990* (Cth) was not subjected to the same degree of scrutiny as some aspects of the *Copyright Act 1968* (Cth) (particularly parallel import restrictions) and raising fundamental questions about the desirability of existing patent thresholds and standards.

This inquiry and consideration of the proposed amendments in the Bill is an opportunity to address the concerns that the existing *Patents Act 1990* (Cth) does not adequately reflect the form and modes of regulation required by a modern efficient and effective economy in Australia. My submissions are, thus:

- (a) That the *Patents Act 1990* (Cth) should be subjected to a thorough review according to the process set out in the *Competition Principles Agreement* to assess the pro-competition credentials of these existing laws. This will require the policy objectives of the *Patents Act 1990* (Cth) to be clearly identified (beyond motherhood statements about promoting innovation, rewarding invention, and so on) and the existing threshold and standards considered in the context of whether or not they are best formulated to achieve those clearly stated objectives.
- (b) That while it is desirable to consider patents subject to a pro-competition perspective (and other relevant public policy considerations), the formulation of section 6 of the *Statute of Monopolies* (“not contrary to the Law, nor mischievous to the State, by raising Prices of Commodities at home, or Hurt of Trade, or generally inconvenient”) is probably not appropriate to a modern Australian economy. For example, merely raising prices is probably not a suitable indicia of an undesirable anti-competitive consequence justifying the rejection or revocation of a patent. Thus, a modern pro-competition perspective should be included in the *Patents Act 1990* (Cth) fulfilling the same purposes as the current section 6 of the *Statute of Monopolies*, albeit updated to reflect modern formulations of unsuitable restrictions on competition. Such a provision needs to be formulated addressing the processes set out in the *Competition Principles Agreement* in developing and proposing new laws. This is, in short, a structured cost benefit analysis and appropriate consultation.
- (c) That a consideration of the formulation of the terms “manner of manufacture” should also take advantage of this proposed amendment and be reviewed to remove the

incidence of “inventive step”-like elements that pose an unnecessary burden on the patent scheme. Further details of the problem and its possible solution are set out in an attachment (Attachment 2).

Thank you for the opportunity to make a submission.

Yours sincerely,

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5 January 2011

ATTACHMENT 1

Patent Privileges and the National Competition Policy

1. Introduction

Australia's economic and science policy planners assert that commercializing Australia's ingenuity, creativity and determination through patent privileges under the *Patents Act 1990* (Cth) and the *Trade Practices Act 1974* (Cth) will deliver an Australian future of prosperity.¹ These policy initiatives to improve business investment in innovation, stimulate growth of innovative firms, strengthen commercial linkages between publicly funded research institutions and industry, and take promising research to the stage of commercial viability² are commendable. But the place of legislated patent privileges, and in particular 'stronger' patent privileges,³ in achieving these policy outcomes has failed to address the broader debates about the appropriate scope and allocation of patent privileges⁴ in demonstrating that the benefits of restricting competition to the community as a whole outweigh the costs,⁵ and that the objectives of the patent privileges can only be achieved by restricting competition.⁶ This demonstration is the founding principle articulated in the *Independent Committee of Inquiry into Competition Policy in Australia* (Hilmer Committee)⁷ and the subsequent codification of this principle in the *Competition Principles Agreement* (CPA) binding the Commonwealth, States and Territories to

¹ Recent policy statements include the Department of Education, Science and Training, *The Final Report of the National Research Infrastructure Taskforce* (Department of Education, Science and Training, 2004); Commonwealth of Australia, *Mapping Australian Science and Innovation – Main Report* (Department of Education, Science and Training, 2003); Australian Vice-Chancellors' Committee, *Ownership of Intellectual Property in Universities: A Policy and Good Practice Guide* (Australian Vice-Chancellors' Committee, 2002); Commonwealth of Australia, *Backing Australia's Ability: An Innovation Action Plan for the Future* (Big Island Graphics and Corporate Communications ISR, 2001); Department of Industry, Science and Resources, *Innovation—Unlocking the Future: Final Report of the Innovation Summit Implementation Group* (Department of Industry, Science and Resources, 2000); Chief Scientist, *The Chance to Change: Final Report* (Department of Industry, Science and Resources, 2000); Department of Education, Training and Youth Affairs, *Knowledge and Innovation: A Policy Statement on Research and Research Training* (Department of Education, Training and Youth Affairs, 1999); Department of Health and Aged Care, *The Virtuous Cycle, Working Together for Health and Medical Research* (Department of Health and Aged Care, 1999); Department of Industry, Science and Tourism, *Investing for Growth: The Howard Government's Plan for Australian Industry* (Department of Industry, Science and Tourism, 1997).

² See for example *Backing Australia's Ability*, n 1, p 18.

³ The foundation document of the current government innovation policy, *Backing Australia's Ability*, as it was articulated in 2001, only sought to "strengthen our intellectual property (IP) management processes and increase access to global research and technologies" (*Backing Australia's Ability*, n 1, p 18) and makes no mention that this be achieved through a scheme that creates more certain or more comprehensive privileges for inventors. However, by 2002 the implementation of *Backing Australia's Ability* involved enhancing the privileges of patent holders, based on the conclusion that a "[s]ound intellectual property (IP) protection and management are both critical for a successful innovation system" and a need for "fundamental changes to the patent system, to provide better protection and meet the needs of those using our IP regulatory regime" (Commonwealth of Australia, *Backing Australia's Ability: Real Results Real Jobs – Innovation Report 2001-2002* (Big Island Graphics and Corporate Communications ISR, 2002) p 14). Thus, *Backing Australia's Ability* had evolved to offer a 'range of IP initiatives that strengthen our ability to protect our ideas and better capture returns from commercialisation' (*Real Results Real Jobs – Innovation Report 2001-2002*, p 14).

⁴ The almost uncontroversial objective of patent privileges is to promote invention. The controversy relates to how this is best achieved: for an overview of the current competing theories see Burk D and Lemley M, "Policy Levers in Patent Law" (2003) 89 *Virginia Law Review* 1575 at 1595-1630.

⁵ *Competition Principles Agreement*, cl 5(1)(a); the Council of Australian Government adopted the *Competition Principles Agreement* on 11 April 1995; the agreement is set out in National Competition Council, *Compendium of National Competition Policy Agreements* (Australian Government Publishing Service, 1997).

⁶ *Competition Principles Agreement*, cl 5(1)(b).

⁷ Independent Committee of Inquiry into Competition Policy in Australia, *National Competition Policy* (Australian Government Publishing Service, 1993) pp 206-208 (Hilmer Committee report).

facilitate effective competition to promote economic efficiency and benefits for consumers,⁸ as part of the National Competition Policy (NCP).⁹

Despite recent reviews of legislated patent privileges, set out in both the *Patents Act 1990* (Cth)¹⁰ and the *Trade Practices Act 1974* (Cth),¹¹ in accordance with the CPA to expressly identify and remove unjustified restrictions on competition,¹² patent privileges under the *Patents Act 1990* (Cth)¹³ and the *Trade Practices Act 1974* (Cth)¹⁴ have avoided a comprehensive competition analysis. This avoidance of competition analysis is an anomaly in the fervor and scope of implementing the broader objectives of the NCP across the Australian economy.¹⁵ This article reviews the application of the CPA to the legislative reviews of patent privileges set out in the *Patents Act 1990* (Cth) and the *Trade Practices Act 1974* (Cth), and to legislation amending the *Patents Act 1990* (Cth). Part 2 reviews the key aspects of the developed NCP from its foundations in the Hilmer Committee's report, and the legislative reviews following from the CPA by the National Competition Council (NCC) and the Intellectual Property and Competition Review Committee (IPCR Committee). These analyses find that both the NCC and the IPCR Committee relied on a particular perspective about the benefits of patent privileges without addressing the broader debates about patent scope and allocation, and through this approach fail to adequately address the CPA's requirements. The contrasting IPCR Committee's majority's approach to assessing parallel import restrictions under the *Copyright Act 1968* (Cth) is then examined to highlight this contention. Part 3 reviews the Australian Government's framework for applying the CPA's threshold of benefit that outweighs the costs and "public interest" that warrants or justifies restrictions on competition when assessing legislation that restricts competition.

⁸ See Compendium of NCP Agreements, n 5.

⁹ The NCP comprises a series of agreements between the Commonwealth, States and Territories (see Compendium of NCP Agreements, n 5), legislative measures to limit anti-competitive conduct and ensure access to essential facilities (such as the *Trade Practices Act 1974* (Cth)) and government bodies to oversee the application of the NCP (such as the Australian Competition and Consumer Commission and the National Competition Council; see *Trade Practices Act 1974* (Cth)).

¹⁰ Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (IP Australia, 2000) pp 134-178; see also Australian Industrial Property Organisation, *Review of the Regulatory Regime for Patent Attorneys* (Australian Government Publishing Service, 1996).

¹¹ Intellectual Property and Competition Review Committee, n 10, pp 202-215; National Competition Council, *Review of Sections 51(2) and 51(3) of the Trade Practices Act 1974* (CanPrint Communications Pty Ltd, 1999).

¹² *Competition Principles Agreement*, cls 5(3) and (5).

¹³ These are the "exclusive rights" under the *Patents Act 1990* (Cth), s 13: "during the term of the patent [up to 20-25 years from the application lodgment date], to exploit the invention and to authorise another person to exploit the invention" (s 13(1)) which is "personal property ... capable of assignment and devolution by law" (s 13(2)); the term "exploit", for a product invention, includes "make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of these things" (Sch 1); for a process invention, "exploit" includes "use the method or process or do any act mentioned [for the product invention] in respect of a product resulting from such use" (Sch 1); there are some exceptions to these "exclusive rights" including "[h]uman beings, and the biological processes for their generation, are not patentable inventions" (s 18(2)), an invention that is "contrary to law" (s 50(1)(a)), an invention that is "a substance [or a process producing such a substance by mere admixture] that is capable of being used as food or medicine (whether for human beings or animals and whether for internal or external use) and is a mere mixture of known ingredients" (s 50(1)(b)), and an invention "containing a claim that includes the name of a person as the name, or part of the name, of the invention so far as claimed in that claim" (s 50(2)).

¹⁴ These are the exemption from contravening the *Trade Practices Act 1974* (Cth), pt 4 being, "anything specified in, and specifically authorised by: (i) an Act (not including an Act relating to patents ...); or (ii) regulations made under such an Act" (s 51(1)(a)), except "the imposing of, or giving effect to, a condition of: (i) a licence granted by the proprietor, licensee or owner of a patent ... or (ii) an assignment of a patent ... to the extent that the condition relates to: (iii) the invention to which the patent or application for a patent relates or articles made by the use of that invention" (s 51(3)(a)), except in the misuse of market power (ss 46 and 46A) and resale price maintenance (s 48).

¹⁵ See National Competition Council, *National Competition Policy: Some Impacts on Society and the Economy* (Australian Government Publishing Service, 1999); for an example of recent criticism about the implementation of NCP see Quiggin J, "Is Competition Policy Crazy?" (2001) 55 *Arena Magazine* 55.

The application of these criteria to legislation amending the *Patents Act 1990* (Cth) is then examined. This analysis is relevant in providing some insight into how the CPA might be applied to legislative reviews. The analysis finds that, in the few cases where competition analysis is considered, the regulation development process overlooks the controversy about appropriate patent scope and allocation. Part 4 examines the policy foundations for the “public interest” test and finds that the test is poorly characterized and uncertain in its application. This could account for the uncertain application of the test in the legislation reviews and amending legislation. However, the recent transparency requirements agreed by the Council of Australian Governments (CoAG) should assist in understanding how the test has been applied and promote further meaningful refinements in its application. Finally, Part 5 sets out the conclusions that while there is no question that patent privileges under the *Patents Act 1990* (Cth) and *Trade Practices Act 1974* (Cth) may have a role in promoting useful invention, the onus is on those advocating patent privileges to present the evidence justifying the restriction on competition. Despite the uncertain threshold of the benefit and “public interest” test in the CPA, the article asserts that it is the process of analysis that is more likely to deliver better regulation and so the debate about appropriate patent scope and allocation should be considered when addressing the CPA’s requirements. Once patent privileges have been subject to a comprehensive competition analysis, according to the requirements of the CPA, then future consideration of patent privileges is likely to deliver a more rational patent policy that is more likely suited to the Australian community.

2. The Hilmer Committee, the CPA and the legislation reviews

As a measure of the collective concern about the high social costs from restrictions on competition (together with the inefficiencies in the market from less than optimal allocation of resources), Australia has undertaken an extensive review of its regulations and government actions to remove anti-competitive arrangements that cannot be justified to achieve an identifiable benefit or “public interest”.¹⁶ The following sections consider the key aspects of the developed NCP from its foundations in the Hilmer Committee report and the CPA (Section 2.1) to the following legislative reviews required by the CPA and conducted by the NCC (Section 2.2) and the IPCR Committee (Section 2.3). The IPCR Committee approach to patent privileges is then contrasted with its approach to parallel import restrictions under the *Copyrights Act 1968* (Cth) (Section 2.4).

2.1 Hilmer Committee and the CPA

The Hilmer Committee undertook a broad ranging policy review of the restrictions on competition in Australia and proposed a number of reforms directed to removing barriers to competition with the aim of benefiting consumers, promoting business competition, fostering innovation and making the Australian economy more flexible, thereby “improving its capacity to respond to external shocks and changing market opportunities”.¹⁷ The Hilmer Committee report identified two aspects of intellectual property that required further review:

- (a) The exemption of certain conditions in licenses and assignments of intellectual property in the *Trade Practices Act 1974* (Cth) – here the Hilmer Committee report expressed some concern about the existing scheme of exemptions saying “[t]he Committee was not presented with any persuasive arguments as to why intellectual property rights should receive protection beyond that available under the authorization process [in the *Trade Practices Act 1974* (Cth)]”.¹⁸ The Hilmer Committee “saw force” in arguments suggesting the exemptions be reformed but

¹⁶ This process may be traced back to the establishment of a NCP following the Hilmer Committee report, n 7, the enactment of provisions following the Government response to the Hilmer Committee (*Competition Policy Reform Act 1995* (Cth)) and formal agreement of a NCP between the Commonwealth, States and Territories (see Compendium of NCP Agreements, n 5); see Ministerial Statement, House of Representatives *Hansard*, 12 March 1991, p 1761 (Prime Minister); details about the stewarding of the NCP agreement are reviewed in Harman E, “The National Competition Policy: A Study of the Policy Process and Network” (1996) 31 *Australian Journal of Political Science* 205 at 208-217.

¹⁷ Hilmer Committee report, n 7, p xvi.

¹⁸ Hilmer Committee report, n 7, p 150.

concluded it was not placed to make “expert recommendations” and suggested that the matter should be examined further to “assess whether the policy reflected by the exemption is appropriate”.¹⁹ The NCC and IPCR Committee subsequently undertook the review of the exemption, and this is considered in the following sections; and

- (b) The regulatory restrictions on competition contained in statutes or subordinate legislation – here the Hilmer Committee report identified the “temporary monopolies” given to protect intellectual property as a regulatory barrier to market entry.²⁰ The Hilmer Committee recommended that “[a] mechanism to promote reform of regulation that unjustifiably restricts competition form a central plank of a national competition policy”²¹ and then recommended all Australian governments abide by a series of principles, including that:
- “[t]here should be no regulatory restrictions on competition unless clearly demonstrated to be in the public interest”;²²
 - “[p]roposals for new regulation that have the potential to restrict competition should include evidence that the competitive effects of the regulation have been considered; that the benefits of the proposed restriction outweigh the likely costs; and that the restriction is no more restrictive than necessary in the public interest”;²³ and
 - “[a]ll existing regulation that imposes a significant restriction on competition should be subject to regular review to determine” that the restriction on competition is “clearly demonstrated” to be in the “public interest”.²⁴

Following the Hilmer Committee report, a number of measures were initiated to put the report’s broader recommendations into effect.²⁵ These included amendments to the *Trade Practices Act 1974* (Cth) and *Prices Surveillance Act 1983* (Cth),²⁶ three inter-governmental agreements (including the CPA), and related reforms to the electricity, gas, water and road transport industries.²⁷ A significant part of the CPA was that governments around Australia review the anti-competitive effects of their existing legislation²⁸ and ensure those proposals for new legislation that restricts competition be consistent with the “guiding principle”:²⁹

“... that legislation (including Acts, enactments, Ordinances or regulations) should not restrict competition unless it can be demonstrated³⁰ that:

¹⁹ Hilmer Committee report, n 7, p 151.

²⁰ Hilmer Committee report, n 7, p 195.

²¹ Hilmer Committee report, n 7, p 211.

²² Hilmer Committee report, n 7, p 212.

²³ Hilmer Committee report, n 7, p 212.

²⁴ Hilmer Committee report, n 7, p 212.

²⁵ For a review of the key measures and operation of the National Competition Policy see Deighton-Smith R, “National Competition Policy: Key Lessons for Policy-making from its Implementation” (2001) 60 *Australian Journal of Public Administration* 29.

²⁶ See *Competition Policy Reform Act 1995* (Cth); see also the Second Reading, Competition Policy Reform Bill 1995, House of Representatives *Hansard*, 30 June 1995, pp 2793-2801 (Assistant Treasurer); corresponding legislative amendments were also to be introduced in the various States and territories.

²⁷ See Compendium of NCP Agreements, n 5.

²⁸ *Competition Principles Agreement*, cl 5(3).

²⁹ *Competition Principles Agreement*, cl 5(5).

³⁰ The construction of the *Competition Principles Agreement*, cl 5(1) relies on the term “demonstrated” in setting out the standard to be achieved in applying the “guiding principle” in reviewing existing legislation and proposed legislation that restricts competition, while the *Competition Principles Agreement*, cl 5(5) expressly requires “evidence” that proposed legislation restricting competition is consistent with the “guiding principle”. While this might be construed as a lower standard for reviewing existing legislation, the preferable construction is evidence demonstrating that the guiding principle has been satisfied. That is, “legislation that restricts competition must be accompanied by evidence that the benefits of the restriction to the community as a whole outweigh the costs, and that the objectives can only be achieved by restricting competition”: Productivity Commission, *Regulation and Its Review 2002-03*, Annual Report Series (Productivity Commission, 2003) p 7;

- (a) the benefits of the restriction to the community as a whole outweigh the costs; and
- (b) the objectives of the legislation can only be achieved by restricting competition”.³¹

A timetable for reviewing legislation was agreed in 1996.³² In compliance with the CPA, and the agreed timetable for reviewing legislation, the NCC³³ reviewed the exemption of certain intellectual property dealings from the pro-competition provisions of the *Trade Practices Act 1974* (Cth),³⁴ and the IPCR Committee³⁵ reviewed most Commonwealth intellectual property legislation, including the *Patents Act 1990* (Cth).³⁶ The approach to conducting and the content of these legislation reviews under the CPA is primarily addressed in the Terms of Reference, although there may be additional consideration,³⁷ mandatory procedures³⁸ and guidance from other sources.³⁹ Essentially, the objectives in conducting the legislation reviews is to assess whether the arrangements restrict competition, whether the benefits to the community as a whole outweigh the costs (including the broader assessment of the “public interest”), that it can clearly be demonstrated that the benefits exceed the costs and whether the same objectives can be achieved by other better means.⁴⁰ Further, the regulation in force should be both “efficient”, in terms of “minimizing compliance and other costs imposed on the community”⁴¹ and “effective” in “addressing an identified problem”.⁴² The following sections review the approach and findings of the NCC (Section 2.2) and IPCR Committee (Section 2.3) in applying the CPA criteria. These approaches are then contrasted with the approach of the majority of the IPCR Committee to dealing with parallel import restrictions under the *Copyright Act 1968* (Cth) (Section 2.4).

2.2 National Competition Council

The NCC’s Terms of Reference provided, in part, that the NCC “have regard to the analytical requirements for regulation assessment by all Australian governments set out in the CPA”.⁴³ However, the NCC’s task to review the exemption of certain intellectual property dealings from the pro-competition provisions of the *Trade Practices Act 1974* (Cth) was complicated by the nature of the legislative scheme. The *Trade Practices Act 1974* (Cth) imposes pro-competition regulation onto the conduct of firms,⁴⁴ which are then relaxed by specific exemptions.⁴⁵ The *Trade Practices Act 1974* (Cth) is expressly stated to apply to any privileges exercised under the *Patents Act 1990* (Cth) (and

see also National Competition Council, *National Competition Council Legislation Review Compendium* (AusInfo, 2002) p 1.

³¹ *Competition Principles Agreement*, cl 5(1).

³² Council of Australian Governments, *Communiqué – 11 April 1995* (Department of the Prime Minister and Cabinet, 1995) p 7; this timetable was extended to 30 June 2002 (Council of Australian Governments, *Communiqué – 3 November 2000* (Department of the Prime Minister and Cabinet, 2000) p 5), and presumably has now been extended again: see Regulation and Its Review 2002-03, n 30, pp 73-74 (outstanding reviews).

³³ NCC Review, n 11.

³⁴ NCC Review, n 11, pp 148-246.

³⁵ Intellectual Property and Competition Review Committee, n 10.

³⁶ Intellectual Property and Competition Review Committee, n 10, pp 134-178.

³⁷ For example, *Competition Principles Agreement*, cl 5(9) provides: “Without limiting the terms of reference of a review, a review should: (a) clarify the objectives of the legislation; (b) identify the nature of the restriction on competition; (c) analyse the likely effect of the restriction on competition and on the economy generally; (d) assess and balance the costs and benefits of the restriction; and (e) consider alternative means for achieving the same result including non-legislative approaches”.

³⁸ See for example Office of Regulation Review, *A Guide to Regulation* (Office of Regulation Review, 1998) that apply to “Commonwealth departments, agencies, statutory authorities and boards making, reviewing and reforming regulation” (p A1).

³⁹ See for example Centre for International Economics, *Guidelines for NCP Legislation Reviews* (Centre for International Economics, 1999).

⁴⁰ See Guidelines for NCP Legislation Reviews, n 39, p 7.

⁴¹ Regulation and Its Review 2002-03, n 30, p 1.

⁴² Regulation and Its Review 2002-03, n 30, p 1.

⁴³ NCC Review, n 11, p vi.

⁴⁴ *Trade Practices Act 1974* (Cth), pt IV.

⁴⁵ *Trade Practices Act 1974* (Cth), s 51.

some other intellectual property legislation),⁴⁶ with an exception for certain license and assignment conditions “relating to” the patent.⁴⁷ The exemptions sanctioned relate to anti-competitive agreements,⁴⁸ exclusive dealings⁴⁹ and mergers,⁵⁰ but not to resale price maintenance⁵¹ or misuse of market power.⁵² The NCC addressed the issues by considering the exemptions from the *Trade Practices Act 1974* (Cth) to constitute restrictions on competition because they restricted the operation of the imposed pro-competition regulation.⁵³ Further, the NCC confined the scope of its review to be “whether, and if so, how [the imposed pro-competition regulation] of the *Trade Practices Act* should regulate licensing and assignment of intellectual property rights”.⁵⁴ However, a significant limitation of the NCC’s approach was based on its interpretation of the Terms of Reference to take account of existing intellectual property laws and “assume that the [existing intellectual property laws] will continue to exist and provide a strong indication of the Government’s preferred policy approach for the regulation [of intellectual property]”.⁵⁵ Having adopted this view, the NCC could only ever examine the existing legislative provisions without challenging the broader debates about the appropriateness of existing thresholds of patent scope and allocation under the *Trade Practices Act 1974* (Cth) scheme.

The NCC then accepted that general property rights and intellectual property privileges share similar attributes⁵⁶ so that they are “neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them”⁵⁷ and similarly, the exercise of intellectual property privileges did not inherently conflict with pro-competition laws necessarily requiring an exemption from competition law.⁵⁸ The NCC acknowledged that other jurisdictions do not provide any form of exemptions for restrictive conditions in licenses and assignments.⁵⁹ However, the NCC then “accepted”⁶⁰ that the existing exemption “has some continuing relevance in terms of providing businesses with greater certainty when engaging in licensing and assignment activity”⁶¹ with the benefit that “[t]his greater certainty can help reduce the costs associated with compliance with trade practices law and encourage more licensing activity”.⁶² This “acceptance” carried through to the analyses of the benefits⁶³ and costs⁶⁴ of the exemption, and then to the conclusion.⁶⁵

Finally, the NCC considered the various options to retaining the benefits from the exemption while minimising the costs of anti-competitive conduct. The NCC concluded, against the criteria of reducing the potential for anti-competitive conduct, minimising uncertainty, minimising costs and practical

⁴⁶ *Trade Practices Act 1974* (Cth), s 51(1); although the *Plant Breeder’s Rights Act 1994* (Cth) is not currently included in this exemption arrangement.

⁴⁷ *Trade Practices Act 1974* (Cth), s 51(3).

⁴⁸ *Trade Practices Act 1974* (Cth), ss 45 and 45A.

⁴⁹ *Trade Practices Act 1974* (Cth), s 47.

⁵⁰ *Trade Practices Act 1974* (Cth), ss 50 and 50A.

⁵¹ *Trade Practices Act 1974* (Cth), s 48.

⁵² *Trade Practices Act 1974* (Cth), s 46.

⁵³ NCC Review, n 11, p 3.

⁵⁴ NCC Review, n 11, p 3.

⁵⁵ NCC Review, n 11, p 17.

⁵⁶ NCC Review, n 11, p 149.

⁵⁷ NCC Review, n 11, p 160; citing the United States Department of Justice and Federal Trade Commission, *Anti-trusts Guidelines for the Licensing of Intellectual Property* (Federal Trade Commission, 1995) s 2.1.

⁵⁸ NCC Review, n 11, p 163.

⁵⁹ Most notably the United States: NCC Review, n 11, pp 150 and 186-192.

⁶⁰ NCC Review, n 11, p 150.

⁶¹ NCC Review, n 11, pp 150 and 167; presumably this was confined to “clarifying whether licensing conditions which have the effect of subdividing intellectual property rights may be anti-competitive” (p 167).

⁶² NCC Review, n 11, pp 150 and 167.

⁶³ NCC Review, n 11, pp 193-200.

⁶⁴ NCC Review, n 11, pp 201-213.

⁶⁵ NCC Review, n 11, p 213.

implementation,⁶⁶ that “the best option is to amend [the exemption] to remove price restrictions, quantity restrictions, and horizontal arrangements from the scope of the exemption”.⁶⁷ In making this assessment the NCC considered the consequences of repealing the exemption, and accepted that there was no international treaty obligation, such as the *Agreement on Trade Related Aspects of Intellectual Property Rights* (TRIPs),⁶⁸ on constraining how competition law might be applied to intellectual property.⁶⁹

“Repealing [the exemption] would remove the potential that anti-competitive conduct could be exempted from the operation of the *Trade Practices Act*. However, the [NCC] accepts that repeal would impose some uncertainty and costs on parties in checking that their agreements do not breach [the pro-competition regulations in the *Trade Practices Act*], particularly in cases where it is difficult to assess the market potential of intellectual property rights or the boundaries of the markets in which the intellectual property rights might be commercialised at some future date. Guidelines may not be sufficient to fully alleviate this uncertainty, particularly in circumstances where investors need absolute certainty about the validity of licensing conditions before they may proceed to invest in research and development”.⁷⁰

The NCC then recommended that the exemption be retained, “but amended to remove protection from price and quantity restrictions and horizontal agreements”.⁷¹ The NCC also recommended that guidelines be formulated to assist in determining when intellectual property licenses and assignments might be exempt from, or breach, the *Trade Practices Act 1974* (Cth), and what breaching conduct might be authorised under the *Trade Practices Act 1974* (Cth).⁷²

Although the NCC did undertake a process of identifying the benefits and costs of the exemption from competition,⁷³ the final conclusions were based on the NCC’s “acceptance”⁷⁴ and “consideration”⁷⁵ that, subject to price and quantity restrictions and horizontal agreements, restricting competition by patent privileges was desirable. At best the benefits were merely “greater business certainty”,⁷⁶ while the costs in terms of anti-competitive conduct ranged across all conduct, but with most being confined to horizontal arrangements and vertical arrangements that facilitate horizontal agreements.⁷⁷

Interestingly, the NCC posed significant counter arguments to those put to it that were not then addressed. This included the residual uncertainty about the operation of the existing exemption,⁷⁸ the absence of a similar exemption in other jurisdictions that does not appear to have harmed investment in research,⁷⁹ the minor factor favorable competition law treatment would be in any decisions about investing in innovation,⁸⁰ and the global nature of licensing intellectual property meaning that favorable treatment in one jurisdiction may not apply in another jurisdiction thus questioning the need

⁶⁶ NCC Review, n 11, p 241.

⁶⁷ NCC Review, n 11, p 241.

⁶⁸ *Marrakech Agreement Establishing the World Trade Organisation* [1995] ATS 8, Annex 1C; made Marrakech 15 April 1994; entry into force generally and for Australia on 1 January 1995.

⁶⁹ NCC Review, n 11, pp 227-230.

⁷⁰ NCC Review, n 11, p 242.

⁷¹ NCC Review, n 11, p 243.

⁷² NCC Review, n 11, p 245.

⁷³ NCC Review, n 11, pp 193-213.

⁷⁴ See for example NCC Review, n 11, p 242.

⁷⁵ See for example NCC Review, n 11, pp 200 and 213.

⁷⁶ NCC Review, n 11, p 200.

⁷⁷ NCC Review, n 11, p 213.

⁷⁸ NCC Review, n 11, p 196.

⁷⁹ NCC Review, n 11, pp 196 and 200; although it was noted that in these circumstances the courts may take into account the “special features” of intellectual property when assessing whether particular conduct is anti-competitive (pp 186-187); for an analysis of the difference between the intended policy and its application by the courts in the United States, and likely application in Australia see Lawson C, “Patenting Genes and Gene Sequences and Competition: Patenting the Expense of Competition” (2002) 30 *Federal Law Review* 97 at 117-128.

⁸⁰ NCC Review, n 11, p 200.

for favorable treatment.⁸¹ Each of these matters should have challenged the “acceptance” and “consideration” of benefit from excluding some intellectual property related conduct from the *Trade Practices Act 1974* (Cth). Further, the NCC failed to consider that the *Trade Practices Act 1974* (Cth) is directed to limiting only some anti-competitive conduct (such as some horizontal anti-competitive arrangements),⁸² and other conduct only when that conduct passes a threshold of anti-competitiveness (such as misuse of market power).⁸³ In these circumstances much of the anti-competitive conduct (both unilateral and multilateral)⁸⁴ exempted or up to the threshold set by the *Trade Practices Act 1974* (Cth) will be sanctioned, even where the costs to consumers may be significant. An example of such conduct is the ability of some patent holders (and their licensees and assignees) to license the patent protected products rather than sell them to avoid exhaustion (whether regional, national or international) of the patentee’s “exclusive rights”, thus avoiding a competitive control on prices from second hand dealings. In these circumstances the higher prices to individual purchasers may be low, but across an economy such increased prices might be a considerable inefficiency.⁸⁵

Further, the NCC acknowledged that in some circumstances products protected by patents might not be substitutable (such as “a newly discovered vaccine for a formerly incurable disease”)⁸⁶ thereby creating a product market in which participants might have the potential to exercise market power.⁸⁷ The only evidence that the NCC appeared to consider in this context were arguments that repealing the exemption would then require these patent holders to seek authorisation and at some considerable cost and disincentive to further innovation.⁸⁸ Unfortunately, the NCC did not express any specific views about this evidence, although this appears to have been “accepted” as a benefit to retaining the exemption in some form.⁸⁹ There was, however, no assessment of the problems of substitutability in high technology markets, particularly in the pharmaceutical and biotechnology industries.⁹⁰

The Government is still considering its response to the NCC report,⁹¹ although this has been overtaken by the IPCR Committee’s review of the NCC’s conclusions and recommendations.⁹² This is considered, in part, in the next section.

2.3 Intellectual Property and Competition Review Committee

Following on from the NCC’s inquiry into the exemptions of intellectual property privileges from the *Trade Practices Act 1974* (Cth), the IPCR Committee undertook a review of intellectual property legislation (excluding the *Plant Breeder’s Rights Act 1994* (Cth)),⁹³ as part of the requirements under the CPA to review legislation restricting competition. The Terms of Reference provided, in part, that the IPCR Committee “shall have regard to: (a) the determination, in the CPA, that legislation which restricts competition should be retained only if the benefits to the community as a whole outweigh the

⁸¹ NCC Review, n 11, p 200.

⁸² *Trade Practices Act 1974* (Cth), s 45.

⁸³ *Trade Practices Act 1974* (Cth), s 46.

⁸⁴ Noting that the NCC accepted that anti-competitive conduct ranged across all conduct: see NCC Review, n 11, p 213.

⁸⁵ Inefficient regulation imposing substantial costs on consumers through cross-subsidies and reduced incentives for firms to innovate was a general concern to the Hilmer Committee: see Hilmer Committee report, n 7, p 189.

⁸⁶ NCC Review, n 11, p 172.

⁸⁷ Although, the NCC considered this was only likely in “some rare cases ... [where] ... certain technologies ... will have no or few close substitutes”: NCC Review, n 11, p 172; however, it is these cases where the anti-competitive effects of patents are most likely to be most pronounced.

⁸⁸ NCC Review, n 11, pp 225-227.

⁸⁹ NCC Review, n 11, p 230.

⁹⁰ This is an issue also addressed by the IPCR Committee, but again without resolution: see Intellectual Property and Competition Review Committee, n 10, p 143.

⁹¹ See National Competition Council, *National Competition Council Legislation Review Compendium* (4th Edition, AusInfo, 2002) p 31.

⁹² Intellectual Property and Competition Review Committee, n 10, pp 202-215.

⁹³ The reasons for excluding this legislative scheme from the review are uncertain.

costs, and if the objectives of the legislation can only be achieved by restricting competition”.⁹⁴ However, the Terms of Reference also included specific matters that the IPCR Committee “shall inquire into and report ... on”, including “the objectives of, including the nature and magnitude of the problems sought to be addressed by ... the *Patents Act 1990*”, “the nature of the restrictions in the legislation on competition”, “the likely effect of those restrictions on competition”, alternative means of achieving the same objectives, and the “costs and benefits” and “appropriateness, effectiveness and efficiency” of the legislation, restrictions on competition and alternatives.⁹⁵ These requirements are consistent with the CPA.⁹⁶

The IPCR Committee set out its vision of the impact of intellectual property privileges on competition, including patents:

“... it is important to recognise that competition occurs in a number of dimensions. More specifically, firms do not only compete in the prices they set but also in their ability to develop new processes and to design and market new products. This dynamic competition is of special importance. In effect, rather than simply reallocating existing resources, it expands the resources on which society can draw and allows for sustainable increases in living standards. It is also important because in practice it is the main way established market positions are over-turned, and the threat of competition made into an ever-present constraint on the conduct of firms. An effective system to define and enforce intellectual property rights is critical for this type of dynamic competition to occur on a material scale”.⁹⁷

Importantly, the IPCR Committee expressed its view that the interaction between intellectual property and competition was “largely complementary” with intellectual property promoting innovation and competition policy “keeping markets open and effective, preserves the primary source of the pressure to innovate and to diffuse innovations”.⁹⁸ However, recognising that intellectual property privileges do have social costs, the IPCR Committee conceded:

“Intellectual property laws must ... involve some balance between the incentives to invest in creative effort and the incentives for disseminating material that is the subject of intellectual property protection. This balance turns on determining the appropriate scope of protection, in terms of the conditions under which protection is granted, the scope and effectiveness of the exclusive privileges provided by protection, and the duration of the protection given. Balancing between providing incentives to invest in innovation on one hand, and for efficient diffusion of innovation on the other, is a central, and perhaps the crucial, element in the design of intellectual property laws. In the Committee’s view, it is essential that the terms of this balance be clearly set out in the intellectual property laws themselves, so that rights owners and users can be certain about the scope and content of the grants being made”.⁹⁹

In addressing patents specifically, the IPCR Committee rejected the notion that Australia might apply a higher threshold standard to non-resident patent applicants,¹⁰⁰ and presented a particular perspective on the benefits of patents in Australia:¹⁰¹

“... effective patent protection facilitates trade in technology, both domestically and internationally. An effective patent system, accessible to foreign technology suppliers, allows Australian firms to import technology that would otherwise be unavailable, or would only be available at higher cost. This increases productivity and enhances competition in the Australian economy. The importance of technological imports

⁹⁴ Intellectual Property and Competition Review Committee, n 10, p 217.

⁹⁵ Intellectual Property and Competition Review Committee, n 10, p 217.

⁹⁶ *Competition Principles Agreement*, cl 5(9).

⁹⁷ Intellectual Property and Competition Review Committee, n 10, p 5.

⁹⁸ Intellectual Property and Competition Review Committee, n 10, p 6.

⁹⁹ Intellectual Property and Competition Review Committee, n 10, p 6.

¹⁰⁰ Intellectual Property and Competition Review Committee, n 10, p 139.

¹⁰¹ See for example the dissenting opinion in Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (Canberra Publishing and Printing, 1984); for a recent overview of the competing theories about optimal division and scope of patents see Burk and Lemley, n 4 at 1595-1631 and the references therein.

is illustrated by the more than 90 per cent of patents registered in Australia, which are owned by foreigners. In addition, there are more indirect cross-border spillovers through importing of goods which embody innovations and which may be used as intermediate inputs or sold directly to end-users”.¹⁰²

The IPCR Committee did, however, present some assertions in support of its perspective about the benefits of patent privileges. It argued that the private value of research and development was much less than the social value,¹⁰³ and that patent privileges were the best system yet devised to balance the trade-off between maintaining incentives to invest and fostering the diffusion of new technology.¹⁰⁴ Unfortunately these assertions, while not contentious as a generalisation, gloss over a hotly contested and disparate debate about the appropriate scope and allocation of patent privileges that the IPCR Committee itself had identified in discussing balancing incentives and exploiting intellectual property generally.¹⁰⁵ Interestingly the IPCR Committee did cite “uncertainty as to which of several contending parties will receive patent protection and how much protection patents will afford” as an “imperfections” in the existing patent privilege scheme.¹⁰⁶ Further, the IPCR Committee’s analysis and conclusions were not based on Australia’s experience with patent privileges, but rather relied on international comparisons that were then assumed to be applicable to Australia.¹⁰⁷ The IPCR Committee then concluded that patent privileges can lead to “losses in allocative and productive efficiency” but “[i]n practice ... a patent holder can rarely act as a pure monopoly, because of the availability of alternative and substitute products and processes, and also because some scope for imitation almost always exists”.¹⁰⁸ The loss of some “dynamic efficiency” in the development of derivative innovations was also acknowledged, but again, “[t]o some extent dynamic losses are counteracted by the disclosure of ideas as part of the *quid pro quo* of granting a patent and that the patent system itself ... facilitates the use of licensing”.¹⁰⁹ The IPCR Committee then reached an “overall” conclusion:

“Overall, the Committee agrees with Scherer that ‘the patenting system is recognised to be an imperfect instrument. Nevertheless, it may be the best solution policy man can devise to the difficult trade-off between, on the one hand, maintaining incentives for investment and, on the other hand, fostering the diffusion of new technology’s benefits to consumers and to those who might make leapfrogging inventions’”.¹¹⁰

Having adopted this conclusion, the view that compliance with international patent standards was beneficial to Australia¹¹¹ and a part of Government policy,¹¹² and its gloss on the debates about appropriate patent scope and allocation, the IPCR Committee accepted the existing legislated scheme for patent privileges and identified a number of improvements that might promote more competition in the application of the threshold tests and the duration of the patent term.¹¹³ However, these issues were examined from the IPCR Committee’s particular concern about the economic effects of the certainty of the patent grant,¹¹⁴ both granting patents that should not be granted and not granting patents that should be granted.¹¹⁵ From this perspective the IPCR Committee considered threshold

¹⁰² Intellectual Property and Competition Review Committee, n 10, p 139.

¹⁰³ Intellectual Property and Competition Review Committee, n 10, p 137.

¹⁰⁴ Intellectual Property and Competition Review Committee, n 10, p 143.

¹⁰⁵ See Intellectual Property and Competition Review Committee, n 10, p 6.

¹⁰⁶ See Intellectual Property and Competition Review Committee, n 10, p 143.

¹⁰⁷ Such assumptions are certainly open to question, especially where a state is a net technology importer like Australia: see for example Maskus K, *Intellectual Property Rights in a Global Economy* (Institute for International Economics, 2000) pp 237-238.

¹⁰⁸ Intellectual Property and Competition Review Committee, n 10, p 138.

¹⁰⁹ Intellectual Property and Competition Review Committee, n 10, p 139.

¹¹⁰ Intellectual Property and Competition Review Committee, n 10, p 143.

¹¹¹ Intellectual Property and Competition Review Committee, n 10, pp 27 and 139-141.

¹¹² The Terms of Reference required the IPCR Committee’s deliberation to “have regard to ... the intentions and policies of the Government”: Intellectual Property and Competition Review Committee, n 10, pp 216-217.

¹¹³ Intellectual Property and Competition Review Committee, n 10, p 144.

¹¹⁴ Intellectual Property and Competition Review Committee, n 10, pp 143-144.

¹¹⁵ See Intellectual Property and Competition Review Committee, n 10, p 153.

test improvements including requiring a specific, substantial and credible use be defined¹¹⁶ and that the scope of prior art be expanded for assessing inventive step.¹¹⁷ It was suggested that other requirements be restricted including prior use¹¹⁸ and compulsory licensing.¹¹⁹ On patent term, the IPCR Committee “believed” there was not enough evidence to extend the patent term,¹²⁰ although it did suggest that raising renewal fees might be applied to “extract a lower economic rent”.¹²¹ While these assessments and recommendations certainly affect competition, the IPCR Committee approach avoided assessing the contentions about the appropriate balance of patent scope and allocation and how this might be countered when the social costs were judged to be too high (such as the appropriate threshold of “public interest” before a compulsory license is to be granted).

The flaw in the IPCR Committee’s approach, albeit an approach that was open to the IPCR Committee according to its Terms of Reference, was to avoid any analysis of the controversy about the most appropriate threshold requirements in the *Patents Act 1990* (Cth). For example, different theories about the objectives of patent privileges propose very different threshold standards depending on what the patent scheme is intended to achieve. The IPCR Committee failed to clearly identify what patent privileges in Australia are intended to achieve¹²² and to consider the most appropriate test in achieving this objective.¹²³ Comparing the “reward theory” and the “prospect theory” illustrate this contention. The “reward theory” views a patent as an incentive to undertake uncertain invention with an opportunity to appropriate greater commercial returns. This is considered to foster socially beneficial inventions, but with significant social costs on short term inefficiencies in the market from the anti-competitive effects of the patent (primarily restricted output and higher prices) appropriating public goods (ideas) that would otherwise be used.¹²⁴ In contrast, the “prospect theory” views patents as promoting the commercial development of inventions with patents granted to early stage inventions facilitating the bringing of a usable invention to the market and acting as an incentive to maximise the commercial value from exploiting the invention with relief from free-riders.¹²⁵ These different theories pose significantly different consequences for short-term competition. The “reward theory” imposes high thresholds for patentability seeking to limit patents to only those inventions that would not have been made with significant concerns about the effects on competition. In contrast, the “prospect theory” imposes lower thresholds giving the patent holder control over the development process and possibly increasing the efficiency of commercialisation (that otherwise may not occur) with less concern about the effects on competition.

¹¹⁶ Intellectual Property and Competition Review Committee, n 10, pp 151-154.

¹¹⁷ Intellectual Property and Competition Review Committee, n 10, pp 154-156 and 168-170.

¹¹⁸ Intellectual Property and Competition Review Committee, n 10, pp 157-159.

¹¹⁹ Intellectual Property and Competition Review Committee, n 10, pp 162-163.

¹²⁰ Interestingly, the IPCR Committee did not consider the patent term extension provisions and their likely effect on competition: see *Patents Act 1990* (Cth), ss 70-79A.

¹²¹ Intellectual Property and Competition Review Committee, n 10, pp 144 and 156; although it is not clear whether the IPCR Committee considered this only shortened the term for less innovative patents or also lowered the social costs by recouping the costs of administering the scheme.

¹²² See Intellectual Property and Competition Review Committee, n 10, pp 136-138; the IPCR Committee variously considering patent privileges seek to stimulate invention and innovation, increase the public availability of information about new technology, encourage entrepreneurs, promote investment or address free-riding on investment in intellectual effort.

¹²³ See Intellectual Property and Competition Review Committee, n 10, pp 154-156; the IPCR Committee considered the prior art limb of the inventive step threshold but failed to consider the non-obviousness limb and how the standard might be applied to exclude inventions that result merely from the application of labour and resources.

¹²⁴ There is an extensive literature about this theory; see for example the Subcommittee on Patents, Trademarks and Copyrights of the Senate Committee on the Judiciary, *An Economic Review Of The Patent System*, 85th Congress, 2nd Session (Committee Print, 1958) (also known as the Machlup Report).

¹²⁵ There is an extensive literature about this theory; see for example its recent articulation in Kitch E, “The Nature and Function of the Patent System” (1977) 20 *Journal of Law and Economics* 265 and its later articulation in Merges R, “Uncertainty and the Standard of Patentability” (1992) 7 *High Technology Law Journal* 1.

A further flaw in the IPCR Committee's approach was accepting that "Australia was complying with most of the current requirements of TRIPs before they were adopted and so only relatively minor adjustments to the *Patents Act* were required to make it TRIPs-compliant"¹²⁶ as establishing that the existing *Patents Act 1990* (Cth) set the threshold for compliance with TRIPs. In fact, many of the *Patents Act 1990* (Cth) provisions apply standards higher than TRIPs requires,¹²⁷ TRIPs leaves open the applicable standard of the patent threshold requirements,¹²⁸ and TRIPs "flexibility" allows considerable scope to develop more appropriate laws to Australia's particular economic and technological needs.¹²⁹ This flaw was particularly apparent in the IPCR Committee's failure to consider the expressly allowed exemptions under TRIPs¹³⁰ and their likely effects on competition.

The IPCR Committee then examined the NCC's report about the exemption of certain patent license and assignment conditions under the *Trade Practices Act 1974* (Cth).¹³¹ The Terms of Reference only required the IPCR Committee to "have regard to ... the conclusions and recommendations" of the NCC's report.¹³² In addressing the Terms of Reference the IPCR Committee carefully confined its comments to the existing legislative scheme "considering the effects that (given the [*Trade Practices Act*] as it stands) would flow from different approaches to the coverage by the Act of conduct relating to the exercise of IP rights".¹³³ With these riders in place the IPCR Committee recommended that the *Trade Practices Act 1974* (Cth) should be amended by applying a test of whether the relevant conditions in licenses and assignments substantially lessened competition as applied in other parts of that *Trade Practices Act 1974* (Cth).¹³⁴ The IPCR Committee also recommended that the Australian Competition and Consumer Commission issue guidelines to clarify the types of conduct that are likely to breach the modified provision.¹³⁵ This was significant as the IPCR Committee considered that the *Trade Practices Act 1974* (Cth) "should come into play when intellectual property rights are used in ways that go beyond the scope of the right being granted".¹³⁶ Unfortunately, without addressing the appropriateness of patent scope and allocation the likely pro-competitive and anti-competitive consequences of exemptions from the *Trade Practices Act 1974* (Cth) remain uncertain.

The IPCR Committee also accepted that so long as exercising the patent privileges was not "going beyond market power" it was an acceptable restriction on competition.¹³⁷

"... the system of IP rights acts to provide to those who invest in creative effort a claim on the differential efficiency associated with the results of their investment – that is, of the social gain consequent on that

¹²⁶ Intellectual Property and Competition Review Committee, n 10, p 141.

¹²⁷ For example, Australia applies a higher standard to the granting of compulsory licenses than TRIPs requires: compare *Patents Act 1990* (Cth), ss 133-135 and *Agreement on Trade Related Aspects of Intellectual Property Rights*, art 31.

¹²⁸ Nicol D and Nielsen J, "The Australian Medical Biotechnology Industry and Access to Intellectual Property: Issues for Patent Law Development" (2001) 23 *Sydney Law Review* 347 at 363-364.

¹²⁹ For an analysis of some of these options in Australia see Lawson C, "Flexibility" in TRIPs: Using Patented Inventions Without the Authorisation of the Right's Holder" (2004) *Australian Intellectual Property Journal*, in press.

¹³⁰ See *Agreement on Trade Related Aspects of Intellectual Property Rights*, art 27: "inventions ... 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" (art 27(2)), "diagnostic, therapeutic and surgical methods for the treatment of humans or animals" (art 27(3)(a)) and "plants and animals other than micro-organisms, and essential biological processes for the production of plants or animals other than non-biological and microbiological processes" (art 27(3)(b)).

¹³¹ Intellectual Property and Competition Review Committee, n 10, pp 202-215.

¹³² Intellectual Property and Competition Review Committee, n 10, p 217.

¹³³ Intellectual Property and Competition Review Committee, n 10, p 210.

¹³⁴ Intellectual Property and Competition Review Committee, n 10, pp 11 and 215; this would include a refusal to deal (p 213).

¹³⁵ Intellectual Property and Competition Review Committee, n 10, pp 11 and 215.

¹³⁶ Intellectual Property and Competition Review Committee, n 10, p 24.

¹³⁷ Intellectual Property and Competition Review Committee, n 10, p 211.

investment's outcomes. Those rights should not be used to secure a gain that goes beyond that differential efficiency through the exercise of market power. Thus, it is an inherent element in the IP right that the owner of a patent on an invention can secure an income dependent on the unique efficiency that invention allows; but it ought not to be acceptable for the owner of that patent to, say through the formation of a patent pool with owners of competing patents, effect a horizontal cartel, raise prices and secure monopoly rents. The grant of IP rights seeks to provide for creators a return on their investment in creation – the rights should not be used to secure returns that do not come from the social contribution that creation makes".¹³⁸

Unfortunately, this again fails to assess whether a patent privilege is an acceptable restriction on competition even though there has been no substantial lessening of competition. With respect, the IPCR Committee's view that a restriction on competition only becomes a subject of concern when some anti-competitive threshold is reached is not the policy justification of the CPA, or the particular concerns of the Hilmer Committee.¹³⁹ The CPA is concerned with *any* restriction on competition, appreciating that even minor restrictions on competition such as unnecessary regulation, imposes inefficiencies that should be removed unless they can be justified according to the CPA's criteria. The IPCR Committee should have, at the very least, identified the theoretical justifications for its conclusions and related them to in the context of the Australian community.

However, the criticism of the IPCR Committee's dealing with patent privileges under the *Trade Practices Act 1974* (Cth) must be tempered as the existing *Trade Practices Act 1974* (Cth) pt IV, as the IPCR Committee itself noted,¹⁴⁰ was fashioned in a different economic era and probably should be subjected to its own independent review, whereupon the place of patent privileges might be more certainly addressed. Despite this reservation, the approach of the IPCR Committee in avoiding the broader debates about the appropriateness of the existing patent scope and allocation settings meant that the likely anti-competitive effects of different settings under the *Trade Practices Act 1974* (Cth) scheme were not assessed.

The following section highlights the flawed approach of the IPCR Committee in assessing patent privileges by examining the IPCR Committee's approach to assessing the anti-competitive effects of the parallel import restrictions under the *Copyright Act 1968* (Cth). The significance of this assessment is to show that it was open to the IPCR Committee to challenge and analyse patent privileges, and in particular the debates about appropriate patent scope and allocation.

2.4 Parallel import restrictions in the Copyright Act 1968 (Cth)

The IPCR Committee majority's consideration of parallel importing under the *Copyright Act 1968* (Cth)¹⁴¹ objected to many of the very same issues that were glossed over in its analyses of the *Patents Act 1990* (Cth).¹⁴² Despite these differences the IPCR Committee was able to structure its analysis of the issues very differently and reach a very different conclusion suggesting that the benefits of parallel import restrictions did not outweigh the detrimental anti-competitive effects and that the restrictions should be repealed entirely.¹⁴³

¹³⁸ Intellectual Property and Competition Review Committee, n 10, p 211.

¹³⁹ The Hilmer Committee was quite explicit: "there should be no regulatory restriction on competition unless clearly demonstrated to be in the public interest": Hilmer Committee report, n 7, p 190; thus here the issue for the IPCR Committee to address should arguably have been how much incentive is sufficient to promote invention in Australia, and once that had been justified (or at least setting out the IPCR Committee's favoured theoretical perspective), then whether any kind of exemption from the *Trade Practices Act 1974* (Cth) would upset this incentive.

¹⁴⁰ See Intellectual Property and Competition Review Committee, n 10, pp 209-210.

¹⁴¹ Noting the parallel import restrictions in the *Copyright Act 1968* (Cth) on sound recordings, books and non-copyright products were already relaxed: see *Copyright Amendment Act (No 1) 1998* (Cth); *Copyright Amendment Act (No 2) 1998* (Cth).

¹⁴² Intellectual Property and Competition Review Committee, n 10, pp 134-178.

¹⁴³ Intellectual Property and Competition Review Committee, n 10, p 5.

The majority of the IPCR Committee accepted that copyright had a “utilitarian justification of protecting and promoting investment in creative effort to secure, for the Australian community, gains associated with investment”¹⁴⁴ so that the privileges granted needed to be “assessed in terms of whether the benefits they may bring, in improved investment in, and access to the results of, creative efforts, outweigh the costs they impose”.¹⁴⁵ Further, “[t]his assessment of the impact of the restrictions needs to include analysis of the wider costs and benefits associated with those impacts”.¹⁴⁶ The majority’s key concern about parallel import restrictions appeared to be market segmentation with the ability to then charge higher prices (and possibly restrict availability) for materials subject to copyright.¹⁴⁷ In effect, this was an assessment about international exhaustion of copyright.

From this bases the majority was able to reject arguments about economic incentives to create,¹⁴⁸ prices and availability,¹⁴⁹ remainder books,¹⁵⁰ marketing and services,¹⁵¹ censorship,¹⁵² piracy,¹⁵³ and economic analysis that favored maintaining the existing restrictions,¹⁵⁴ because they failed to satisfy the CPA criteria.¹⁵⁵ The most significant difference between the majority’s dealing with parallel imports and patent privileges was the detailed approach to addressing the analysis of whether a restriction on competition was justified:

“The Committee started from the premise that restrictions on competition need to be justified. In other words, the Committee, consistent with the NCP and the CPA, accepts that the onus of making a case lies with those who would prevent, limit, or in other ways restrict, competitive forces from operating.

More specifically, we accept that those who would restrict competition should establish the restrictions are in the public interest, rather than merely serving the interests of particular producers. The Committee believes that this well-established principle – requiring those who would restrict competition to demonstrate the need to do so – appears to be fully justifiable.

However, experience and analysis amply demonstrate the importance of competition in promoting efficiency and underpinning prosperous, open economies. It also demonstrates the frequency with which restrictions on competition, though claimed to serve wider interests, have been used to confer above normal profits on narrow groups at the expense of the community. A presumption, albeit a rebuttable one, in favour of competition, is consequently clearly reasonable.

Such a presumption also places the evidentiary burden on those best placed to demonstrate the position. The reality is that the benefits from restrictions on competition generally accrue to concentrated groups, while the costs of these restrictions are spread widely throughout the community. Given this spreading of costs, it is far more difficult for those adversely affected by restrictions to organise themselves and present their case, than it is for the direct beneficiaries to support the restrictions.

As a result, the Committee believes that it is reasonable to expect those who would introduce or perpetuate restrictions to provide convincing evidence of why the restrictions are in the public interest.

It follows that the relevant test is whether the material made available to the Committee establishes that the restrictions these provisions impose on competition confer benefits on the community that outweigh their costs.

¹⁴⁴ Intellectual Property and Competition Review Committee, n 10, p 61.

¹⁴⁵ Intellectual Property and Competition Review Committee, n 10, p 62.

¹⁴⁶ Intellectual Property and Competition Review Committee, n 10, p 62.

¹⁴⁷ Intellectual Property and Competition Review Committee, n 10, p 62.

¹⁴⁸ Intellectual Property and Competition Review Committee, n 10, pp 49-51 and 66-69.

¹⁴⁹ Intellectual Property and Competition Review Committee, n 10, pp 51-53 and 64-69.

¹⁵⁰ Intellectual Property and Competition Review Committee, n 10, pp54-55 and 64.

¹⁵¹ Intellectual Property and Competition Review Committee, n 10, pp 55-56 and 66-69.

¹⁵² Intellectual Property and Competition Review Committee, n 10, pp 56-57.

¹⁵³ Intellectual Property and Competition Review Committee, n 10, pp 57-60.

¹⁵⁴ Intellectual Property and Competition Review Committee, n 10, p 65.

¹⁵⁵ Intellectual Property and Competition Review Committee, n 10, p 73.

In cases where arguments put to us appear weak, the Committee actively sought further information and tried to analyse the arguments in the best light. As a result, we are convinced that we have provided the differing points of view with a fair and thorough hearing”.¹⁵⁶

The different approach of the majority of the IPCR Committee in directly addressing the arguments about theoretical benefits of particular policy settings for parallel importing and the absence of this analysis for patent privileges is perplexing and unexplained. Significantly, the majority questioned the assumptions and assertions of benefit that copyright privileges under the *Copyright Act 1968* (Cth) were protecting and promoting investment. Had the IPCR Committee applied a similar critical analysis of patent privileges then the debates about appropriate patent scope and allocation would probably have been more closely examined and the requirements of the CPA more properly addressed. Further, broader issues such as the high costs of patented pharmaceuticals, non-tariff trade barriers, ethical considerations about patenting life, and so on, may have required consideration in more broadly assessing the “public interest”. With respect, this approach appears to more closely fit with the CPA and the principle articulated in the Hilmer Committee report. Further, such an analysis of patent privileges is more likely to deliver some insight into the effects of patent privileges and their likely benefits for the Australian community.

With parallels to the IPCR Committee’s approach to patent privileges, the minority view of the IPCR Committee accepted the assumptions and assertions of benefit and therefore concluded that parallel import restrictions in the *Copyright Act 1968* (Cth) were justified:

“It is true that the ability to restrict parallel imports gives rise to an economic rent in favor of the copyright owner. However this rent encourages innovation and investment, and is precisely the foundation on which copyright is based. Allowing parallel imports reduces the incentives to innovate or invest. It is submitted that the costs incurred in removing the restriction will exceed the costs (in economic terms) of retaining that power”.¹⁵⁷

The consequence of the minority accepting this approach, and this was certainly open to the IPCR Committee, was to avoid the broader assessment of the anti-competitive effects of copyright and a proper assessment of the criteria set out in the CPA. Significantly, these are the very same flaws as appear in the IPCR Committee’s assessment of the *Patents Act 1990* (Cth) and the relevant parts of the *Trade Practices Act 1974* (Cth).

However, the differing approaches of the IPCR Committee highlight the problems of applying the benefit threshold criteria and “public interest” test set out in the CPA. If the IPCR Committee had conducted a more expansive review of the *Patents Act 1990* (Cth) and the *Trade Practices Act 1974* (Cth), how should it have addressed the CPA criteria, and specifically how broadly should it have canvassed the “public interest”? The following sections consider the CPA’s benefit threshold and “public interest” test, firstly examining their application to proposed legislation (with examples from patent amendment legislation), and then to analyse how the application of the “public interest” test is evolving. In clarifying the application of the CPA, future reviews of legislation may then avoid some of the inconsistencies apparent in reviewing the patent privilege and parallel importing legislation and challenge some of the fundamental justifications for patent privileges with a view to delivering a more rational patent policy suited to the Australian community.

3. The benefit threshold or standard and patent privileges

The CPA expressly recognises, as did the Hilmer Committee report,¹⁵⁸ that in some circumstances, the benefits of restrictions on competition will outweigh the costs, and that legislation restricting

¹⁵⁶ Intellectual Property and Competition Review Committee, n 10, p 61.

¹⁵⁷ Intellectual Property and Competition Review Committee, n 10, p 74.

¹⁵⁸ Hilmer Committee report, n 7, pp 88 and 121; this was where economic efficiency might not be maximized by the introduction of competition, or economic efficiency might be at the cost of other valued social objectives such as equity (p 121).

competition may be necessary. In applying the CPA “guiding principle” to reviewing existing legislation¹⁵⁹ and proposed legislation which restricts competition,¹⁶⁰ the CPA does provide some insight into the “public interest” that may be relevant in determining the threshold or standard necessary for the benefit to outweigh the costs:¹⁶¹

- “Without limiting the matters that may be taken into account, where this Agreement calls:
- (a) for the benefits of a particular policy or course of action to be balanced against the costs of the policy or course of action; or
 - (b) for the merits or appropriateness of a particular policy or course of actions to be determined; or
 - (c) for an assessment of the most effective means of achieving a policy objective;
- the following matters shall, where relevant, be taken into account:
- (d) government legislation and policies relating to ecologically sustainable development;
 - (e) social welfare and equity considerations, including community service obligations;
 - (f) government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
 - (g) economic and regional development, including employment and investment growth;
 - (h) the interests of consumers generally or of a class of consumers;
 - (i) the competitiveness of Australian businesses; and
 - (j) the efficient allocation of resources”.¹⁶²

In applying the CPA and achieving the policy objectives of the NCP, the threshold or standard necessary for the benefit to outweigh the costs is significant as the matters prescribed by the CPA are not comprehensive.¹⁶³ Further, the words of the CPA provide little guidance as to how the threshold or standard is to be methodologically determined or the boundaries within which it should be assessed. Unfortunately, the Hilmer Committee report provided no guidance, and the Commonwealth, States and Territories have very different views about the appropriate methodology for determining the relevant costs and benefits of any restrictions on competition¹⁶⁴ and how the “public interest” test should be applied.¹⁶⁵ Despite these uncertainties, guidelines have been prepared identifying legislative restrictions and many of the relevant factors to take into account, including model Terms of Reference for legislation reviews.¹⁶⁶ However, these guidelines do not assist in finally determining the threshold or standard of benefit to outweigh the costs and “public interest” that warrants or justifies restrictions on competition. In the case of the NCC and the IPCR Committee, where the Terms of Reference

¹⁵⁹ *Competition Principles Agreement*, cl 5(3).

¹⁶⁰ *Competition Principles Agreement*, cl 5(5).

¹⁶¹ The CPA does set out a number of matters that legislation reviews “should” consider: see *Competition Principles Agreement*, cl 5(9); further, there is some guidance to the formulation of the Terms of Reference: see for example Productivity Commission, *Regulation and Its Review 2000-01*, Annual Report Series (Productivity Commission, 2001) pp 78-79.

¹⁶² *Competition Principles Agreement*, cl 1(3).

¹⁶³ See *Competition Principles Agreement*, cl 1(4); notably, the CPA’s “public interest” test is different to the test applied for authorizations and notifications under the *Trade Practices Act 1974* (Cth).

¹⁶⁴ These various views were set out in submissions to the various Commonwealth Parliament Committees: see House of Representatives Standing Committee on Financial Institutions and Public Administration, *Inquiry into Aspects of the National Competition Policy Reform Package* (Australian Government Publishing Service, 2002); Senate Select Committee on Socio-economic Consequences of the National Competition Policy, *Riding the Waves of Change* (Senate Printing Unit, 2000); Senate Select Committee on Socio-economic Consequences of the National Competition Policy, *Competition Policy: Friend or Foe?* (Senate Printing Unit, 1999).

¹⁶⁵ This was a commonly expressed view in submissions to the Senate Friend or Foe Report, n 164, p 101.

¹⁶⁶ A Guide to Regulation, n 38; notably, the Terms of Reference should “(a) identify the nature and magnitude of the social, environmental or other economic problem(s) that the [legislation] seeks to address; (b) clarify the objectives of the [legislation]; (c) identify whether, and to what extent, the [legislation] restricts competition; (d) identify relevant alternatives to the [legislation], including non-legislative approaches; (e) analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of [legislation] and alternatives identified in (d); (f) identify the different groups likely to be affected by the [legislation] and alternatives”: Regulation and Its Review 2000-01, n 161, p 78.

closely resemble the templates recommended by the guidance materials,¹⁶⁷ the appropriate threshold or standard was not articulated.¹⁶⁸

The approach adopted by the Australian Government when proposing new legislation is to undertake public consultation with those affected and assess the possible restrictions on competitive. The Office of Regulation Review (ORR) is the Australian Government's "regulation watchdog" with the charter that "[w]hilst maintaining an economy-wide perspective, the ORR is to focus its efforts on regulations which restrict competition".¹⁶⁹ As part of its task reviewing Regulatory Impact Statements (RIS) prepared for new legislation,¹⁷⁰ the ORR recognises that "restrictions on competition have been singled out for special attention in RISs".¹⁷¹ The key objective of the RIS is:

"Preparation of a [RIS] is a critical feature of the regulation making process, primarily because doing so formalises and evidences the steps that should be taken in policy formulation. It helps to ensure that options to address a perceived policy problem are canvassed in a systematic, objective and transparent manner, with options ranked according to their net economic and social benefits. The RIS embodies this analytical process".¹⁷²

In addition to RISs, the Productivity Commission reports annually on regulation review and reform issues, including compliance by Australian Government departments and agencies with the Government's RIS requirements.¹⁷³ However, the effectiveness of this scheme is questionable and what guidance it provides in assessing the threshold of benefit to outweigh the costs justifying a restriction on competition for the CPA criteria is uncertain. Of the legislation amending the *Patents Act 1990* (Cth) since the CPA came into effect,¹⁷⁴ only the *Intellectual Property Laws Amendment Act 1998* (Cth) and the *Patents Amendment Act 2001* (Cth) RISs' have expressly considered restrictions on competition, although by no means expressly addressing the CPA criteria. The following paragraphs examine the competition considerations in these amendments and how they have been subjected to a competition analysis in the RIS.

The *Intellectual Property Laws Amendment Act 1998* (Cth) extends the term on some pharmaceutical patents to 25 years from lodgment subject to "spring-boarding" provisions and higher fees, revised the

¹⁶⁷ See Regulation and Its Review 2000-01, n 161, pp 78-79.

¹⁶⁸ See NCC Review, n 11, pp v-vi; Intellectual Property and Competition Review Committee, n 10, pp 216-217.

¹⁶⁹ A Guide to Regulation, n 38, p A11.

¹⁷⁰ See House of Representatives Committee on Financial Institutions and Public Administration, n 164, p 16; a RIS has seven key elements – the problem or issues which give rise to the need for action, the desired objective(s), the options (regulatory and/or non-regulatory) that may constitute viable means for achieving the desired objective(s), an assessment of the impact (costs and benefits) on consumers, business, government and the community of each option, a consultation statement, a recommended option, and a strategy to implement and review the preferred option: A Guide to Regulation, n 38, p A2.

¹⁷¹ A Guide to Regulation, n 38, p A3; although noting that the ORR's charter is broader than merely considering competition restrictions and extends to the costs and benefits to business (and small business in particular): see for example Regulation and Its Review 2002-03, n 30, p 73.

¹⁷² A Guide to Regulation, n 38, p A1.

¹⁷³ See for example Regulation and Its Review 2002-03, n 30, pp.

¹⁷⁴ *Intellectual Property Laws Amendment Act 2003* (Cth) (Parliamentary Secretary to the Minister for Industry, Tourism and Resources, Intellectual Property Laws Amendment Bill 2002, Explanatory Memorandum); *Trade Marks and Other Legislation Amendment Act 2001* (Cth) (Parliamentary Secretary to the Minister for Industry, Science and Resources, Trade Marks and Other Legislation Amendment Bill 2001, Explanatory Memorandum); *Corporations (Repeals, Consequentials and Transitionals) Act 2001* (Cth) (Minister for Financial Services and Regulation, Corporations (Repeals, Consequentials and Transitionals) Bill 2001, Explanatory Memorandum); *Industry, Science and Resources Legislation Amendment (Application of Criminal Code) Act 2001* (Cth) (Minister for Industry, Science and Resources, Industry, Science and Resources Legislation Amendment (Application of Criminal Code) Bill 2001, Explanatory Memorandum); *Patents Amendment (Innovation Patents) Act 2000* (Cth) (Parliamentary Secretary to the Minister for Industry, Science and Resources, Patents Amendment (Innovation Patents) Bill 2000, Revised Explanatory Memorandum).

regulatory regime for patent attorneys and deregulated professional practice in trademarks and designs.¹⁷⁵ The justification for extending the patent term on pharmaceuticals set out in the RIS was:

“The development of a new drug is a long process, estimated to average around 12 years, which requires a new chemical entity to be patented early in the process in order to secure its intellectual property rights. However, considerable research and testing is still required before the product can enter the market. As a consequence, patentees of new drugs usually have considerably fewer years under patent in which to maximise their return.

It is expensive to bring a drug to market, around US\$380 million, and involves considerable risk. As such, research based pharmaceutical companies rely heavily on patents to generate the substantial cash flows needed to finance the development of new drugs from the discovery stage, through the pre-clinical and clinical development phases, to eventual marketing.

A country’s patent system is also an important factor in contributing to a company’s decision on whether to invest or not. If Australia has a weak patent system, relative to its competitors, there is a risk that investment in research and development will be lost to those offering stronger patent protection”.¹⁷⁶

The concerns about not extending the patent term appear to have been the sending of a “negative signal” about the Australian climate for investment in pharmaceutical research and development,¹⁷⁷ a reduction in the capacity for firms to invest in and develop new drugs,¹⁷⁸ and the dissipation of the long term investment by the government in education and research by firms moving their activities to other places.¹⁷⁹ The resolution of these concerns was an extension of term of five years for some patents with “spring-boarding” and higher fees during the extended term in order to impose some limitations on the scope of the extension.¹⁸⁰ This conclusion appears to have been based on the finding:

“A strong patent system is an important contributor to the competitiveness of Australia’s investment climate. This was confirmed by the Industry Commission, which agreed that, in most circumstances, it would be undesirable for Australia to be out of step with the periods of protection offered to most other developed countries. To do otherwise would send a highly visible and particularly strong negative signal about the Australian climate for innovation and research and development”.¹⁸¹

Unfortunately, this RIS merely asserts that patent privileges will deliver competitiveness to the investment climate. There was however, no evidence cited for this conclusion, and the confirming authority of the Industry Commission again relies on the same assertion that patent privileges will deliver benefits. The Industry Commission had accepted that the Government was already committed to extending the effective patent life for pharmaceuticals¹⁸² and stated its belief: “[a]dequate patent protection is a critical factor for success in the pharmaceutical industry and so has an important influence on company perceptions of Australia as an investment location”.¹⁸³ There was *no* evidence

¹⁷⁵ See Minister for Industry, Science and Tourism, Intellectual Property Laws Amendment Bill 1998, Revised Explanatory Memorandum.

¹⁷⁶ Revised Explanatory Memorandum, n 175, p 3.

¹⁷⁷ See for example Revised Explanatory Memorandum, n 175, p 4.

¹⁷⁸ See for example Revised Explanatory Memorandum, n 175, p 5.

¹⁷⁹ See for example Revised Explanatory Memorandum, n 175, p 5.

¹⁸⁰ Revised Explanatory Memorandum, n 175, p 8; other significant restrictions in this amendment were that it is limited to substances first registered under the *Therapeutic Goods Act 1989* (Cth), products of recombinant DNA technology and the use of the substances for therapeutic purposes in humans, although applying to existing and future pharmaceutical patents (p 8-9); a review period was set five years for “appropriateness” of the scheme and ten years for the “efficiency and effectiveness” of the scheme (p 10).

¹⁸¹ Revised Explanatory Memorandum, n 175, p 8.

¹⁸² Industry Commission, *The Pharmaceutical Industry* (Australian Government Publishing Service, 1996) pp 66-67.

¹⁸³ Industry Commission, n 182, p 444.

to support this assertion.¹⁸⁴ Interestingly, the Industry Commission did cite earlier views questioning the benefits of adopting intellectual property measures in addition to those minimum standards required by Australia's commitments to international agreements, although made no further analysis of these views.¹⁸⁵ Further, the Industry Commission's Terms of Reference did not expressly include any reference to the CPA,¹⁸⁶ and there appears only to have been a consideration of the existing patent scheme, or its complete removal, rather than its modification to maximise competitiveness and community benefit given that TRIPs precludes its entire abolition.¹⁸⁷

The justification for revising the regulatory regime for patent attorneys in the *Intellectual Property Laws Amendment Act 1998* (Cth) was to introduce competitiveness into the patent attorney profession and drive down charges, while maintaining a profession to ensure "quality" in the patent system.¹⁸⁸ This reform was initiated in the context of the CPA and the Government response to the *Review of the Regulatory Regime for Patent Attorneys*¹⁸⁹ report.¹⁹⁰ The Government asserted that patent privileges were beneficial, saying "[i]ntellectual property is an area where Governments in the western world have intervened for centuries with the primary aim of promoting technological innovation by protecting inventions".¹⁹¹ As a consequence complete deregulation was rejected as the "quality" of the patent attorney profession was necessary for Australia to remain competitive with major trading partners, to sustain overseas income that otherwise might be forgone through the loss of potentially valuable property and to ensure the availability of new technology through a reliable patent system.¹⁹² The resolution of the various regulatory options was to maintain the existing regulatory scheme for patent attorneys (except for trade mark and design matters) recognizing that "allowing unqualified persons to perform the highly specialized activity of drafting patent specifications would involve unacceptably high risks to both consumers and the public".¹⁹³ The significant competition concession was to relax the existing partnership requirements for patent attorneys and allow "mixed" partnerships with other professionals.¹⁹⁴ Unfortunately the RIS does not identify the determinative factors or set out the weight that should be given to the competing factors in reaching this outcome. Interestingly, and as an indication of the likely threshold for benefit, this conclusion was reached on the understanding that patent attorneys lodged only sixty per cent of patent applications, the remaining forty per cent being lodged by the inventor(s).¹⁹⁵

Then the *Patents Amendment Act 2001* (Cth) put into effect some of the recommendations of the IPCR Committee and the Australian Council on Industrial Property's (ACIP) review of patent enforcement,¹⁹⁶ and the Government's commitment to strengthening and making Australian patents more certain by changing the novelty and inventive step requirements in

¹⁸⁴ For an analysis of assertions about the costs of pharmaceutical research and development in Australia see for example Lawson C, "Some Economic Questions for Biotechnology Patenting in Australia" (2000) 41 *Intellectual Property Forum* 10.

¹⁸⁵ Industry Commission, n 182, pp 438-439; see also Bureau of Industry Economics, *The Economics of Patents*, Occasional Paper No 18 (Australian Government Publishing Service, 1994) pp 46-50.

¹⁸⁶ Industry Commission, n 182, pp XXVI-XXVII.

¹⁸⁷ Industry Commission, n 182, pp 439-440; see also Industry Commission, *Research and Development*, Report No 44 (Australian Government Publishing Service, 1996) p 186.

¹⁸⁸ Revised Explanatory Memorandum, n 175, p 10.

¹⁸⁹ Australian Industrial Property Organisation, n 10.

¹⁹⁰ Revised Explanatory Memorandum, n 175, p 10.

¹⁹¹ Revised Explanatory Memorandum, n 175, p 10.

¹⁹² See Revised Explanatory Memorandum, n 175, pp 12-13; see also Second Reading, Intellectual Property Laws Amendment Bill 1997, House of Representatives *Hansard*, 26 November 1997 2001, p 11274 (Minister for Customs and Consumer Affairs).

¹⁹³ Second Reading, Intellectual Property Laws Amendment Bill 1997, n 192, p 11275.

¹⁹⁴ See Second Reading, Intellectual Property Laws Amendment Bill 1997, n 192, p 11276.

¹⁹⁵ See Revised Explanatory Memorandum, n 175, p 11.

¹⁹⁶ Australian Council on Industrial Property, *Review of Enforcement of Industrial Property Rights* (IP Australia, 1999).

the *Patents Act 1990* (Cth).¹⁹⁷ Significantly, the Minister stated that “[t]he bill reflects the governments commitment to encouraging innovation and providing Australia with a strong intellectual property system that meets the needs of Australians”.¹⁹⁸ Unfortunately, the Minister (and ACIP) made no mention of the NCP and why these amendments were justified according to the CPA and what evidence was relied on by the Government in accepting this position. Further, the RIS did not address the CPA criteria or set out any evidence to support justifying “a strong intellectual property system”.¹⁹⁹

Part of the problem in requiring a demonstrated benefit to justify patent privileges may stem from the uncertain threshold necessary for the benefit to outweigh the costs under the CPA and how they are to be applied and assessed. This, in part, may account for the NCC’s and IPCR Committee’s approaches, and the latter’s unexplained different approach to dealing with parallel import restrictions as compared to patent privileges. The following part considers the evolving meaning of the “public interest” test.

4. What is the “public interest”?

There are some evolving views about the “public interest” test that might inform future analyses in applying the CPA to patent privileges. The NCC published guidelines articulating its early views about the purpose of the “public interest” test:

“... subclause 1(3) provides governments with a consistent approach to assessing whether the commitments to reform contained in the intergovernmental agreements threaten desired social objectives. The inclusion of the subclause in the CPA reflects the desire of governments to make clear their view that competition policy is not about maximizing competition *per se*, but about using competition to improve the community’s living standards and employment opportunities”.²⁰⁰

The NCC provided further guidance by introducing concepts of “community benefit” in determining the weight to be given, if any, to the various factors:

“Of necessity, assessing the public interest will require examination of issues on a case-by-case basis. This is because a broad range of considerations will apply, and not all will be relevant in every circumstance. An important message is that systematic and transparent consideration of community benefits and costs through *bona fide* review is a central component of the competition policy reform process. Thus, before deciding to exempt an anti-competitive activity from reform, governments would need to assess the net community benefit from the reform. However, where the net benefit to the community from the reform measure is clear, the [NCC] does not see a requirement for governments to conduct a formal assessment of public interest in terms of subclause 1(3)”.²⁰¹

As to how the “public interest” might be determined, the NCC suggested:

“Examination of the benefits and costs of a particular piece of legislation could specifically have regard to factors such as: the effect of direct or indirect restrictions on competition governing entry and exit of firms or individuals into or out of markets; controls on prices or production levels; quality; level or location of goods and services restrictions; advertising and promotional activity restrictions; restrictions on price or types of inputs used in the production process; costs on businesses in complying with the legislation; the impact of the legislation on consumers; and advantages to some firms over others resulting from, for example, sheltering some activities from the pressures of competition. In conducting a review, governments

¹⁹⁷ Second Reading, Patents Amendment Bill 2001, House of Representatives *Hansard*, 24 May 2001, p 26974 (Parliamentary Secretary to the Minister for Industry, Science and Resources).

¹⁹⁸ Second Reading, Patents Amendment Bill 2001, n 197, p 26975.

¹⁹⁹ See Parliamentary Secretary to the Minister for Industry, Science and Resources, Patents Amendment Bill 2001, Explanatory Memorandum.

²⁰⁰ National Competition Council, *Considering the Public Interest under the National Competition Policy* (Fineline Printing Pty Ltd, 1996) p 4.

²⁰¹ *Considering the Public Interest under the NCP*, n 200, p 7.

might give consideration to public consultation, an analysis of the impact on different groups of the existing regulations and of alternatives, and administrative simplicity and flexibility. It is also desirable for reviews to be conducted in an open and transparent manner”.²⁰²

In a later review of the impact of the NCP on rural and regional Australia, the Productivity Commission recognized the ambiguity in the “public interest” test acknowledging its role in accounting for non-economic factors in applying the NCP.²⁰³ However, the Productivity Commission cautioned against seeking to allow equity considerations to override economic efficiency goals where other policy measures might be relied upon, such as taxation and public expenditure.²⁰⁴ In addressing how the test was to be applied the Productivity Commission stated:

“The Commission considers that, as a starting point, all of the criteria have equal status. In practical terms, however, they will have differing relevance in each particular case. The relevance of each ‘public interest’ criterion will need to be established, in terms of its contribution to the overall costs and benefits of proceeding, or not proceeding, with the particular reform. That is, once an evaluation is under way, the elements of the public interest criteria should not necessarily be afforded equal weight. And, where it is considered that a benefit related to a particular public interest criterion is relevant, it is important to assess whether the objective could be achieved in some other way”.²⁰⁵

Unfortunately, the Productivity Commission failed to articulate a further view about the scope of the “public interest” test,²⁰⁶ merely recommending “[a]ll governments should publish and publicise guidelines which: outline the purpose and scope of the ‘public interest’ provisions of the CPA; and provide guidance on how the provisions should be interpreted and applied”.²⁰⁷ In response to this recommendation, the Government stated:

“The CPA establishes that jurisdictions are free to consider a broad range of factors in examining various reform options. In addition to efficient resource allocation, these issues include those associated with employment growth, regional development, the environment, consumer interests, welfare and equity. This provides for the full range of benefits and costs to be considered in establishing whether a particular course of action will provide a net benefit to the community as a whole. This process essentially embodies the public interest test”.²⁰⁸

Review of the “public interest” test by the Senate Select Committee on Socio-economic Consequences of the NCP also failed to clarify the application of this test.²⁰⁹ The Senate Committee did however, recommend “the NCC publish a detailed explanation of the public interest test and how it can be applied and produces a list of case histories where the public interest test has been applied as a regularly updated service of decisions”.²¹⁰ In response to this recommendation, the Government noted that “[t]he application of the public interest test is described in each jurisdiction’s annual report

²⁰² Considering the Public Interest under the NCP, n 200, p 8.

²⁰³ Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Report No 8 (AusInfo, 1999) pp 322-324.

²⁰⁴ *Impact of Competition Policy Reforms on Rural and Regional Australia*, n 203, p 323.

²⁰⁵ *Impact of Competition Policy Reforms on Rural and Regional Australia*, n 203, p 328.

²⁰⁶ Although, the Productivity Commission did recommend that the boundaries for applying the test should be the interests of Australia as a whole when the impacts of anti-competitive legislation crossed State and Territory jurisdictions: *Impact of Competition Policy Reforms on Rural and Regional Australia*, n 203, p 330.

²⁰⁷ *Impact of Competition Policy Reforms on Rural and Regional Australia*, n 203, p 328.

²⁰⁸ Department of the Treasury, *Response to Productivity Commission Report on the Impact of Competition Policy Reforms on Rural And Regional Australia* (Department of the Treasury, 2000) p 3; see also Government Response to the Productivity Commission Report on the Impact of Competition Policy Reforms on Rural and Regional Australia, House of Representatives *Hansard*, 15 August 2000, p 18964 (Leader of the House).

²⁰⁹ Senate Riding the Waves of Change Report, n 164.

²¹⁰ Senate Riding the Waves of Change Report, n 164, p 42.

on the progress made in implementing legislation review commitments²¹¹ and that the ORR provided an annual assessment of the Australian Government's compliance.²¹² Unfortunately this provided no guidance on how either the Senate Committee or the Government considers the test should be applied.

In addressing the role of the "public interest" in the NCP, the NCC has lately argued that competition is a means rather than an end in itself.²¹³ Thus the "aim is to use competition to improve productivity, lower prices, improve standards of service and enhance the community's living standards and employment opportunities".²¹⁴ In applying the "public interest" test the NCC stated:

"The public interest test was written into the NCP framework to allow all relevant factors to be considered when deciding whether restrictions on competition are warranted. The test provides for consideration of an array of public interest matters, including the environment, employment, social welfare and consumer interests as well as business competitiveness and economic efficiency ... The public interest test in clause 1(3) is neither exclusive nor prescriptive. Rather, it provides a list of indicative factors a government could look at in considering the benefits and costs of particular actions, and allows governments to also take other factors into consideration. Weighing benefits and costs involves difficult judgments which can only be assessed on a case-by-case basis. This is because a broad range of considerations will apply, and not all will be relevant in every circumstance".²¹⁵

Significantly, the NCC's later view also noted:

"A challenge for review bodies and for governments is to focus on outcomes that benefit the community as a whole, rather than providing special treatment for certain groups at the expense of others. Most anti-competitive restrictions benefit someone. But where this imposes costs on others (such as forcing consumers to pay higher prices than would otherwise be necessary), it is important that each side of the argument be weighed in an objective and transparent manner".²¹⁶

Recent consideration of the "public interest" test by the CoAG has the potential to significantly improve the transparency in understanding how the test has been applied and promote further meaningful refinements in its application:

"In meeting the requirements of sub-clauses 1(3)(a), (b) and (c) of the CPA, which relate to the application of the public interest test, Governments should document the public interest reasons supporting a decision or assessment and make them available to interested parties and the public.

When examining those matters identified under clause 1(3) of the CPA, Governments should give consideration to explicitly identifying the likely impact of reform measures on specific industry sectors and communities, including expected costs in adjusting to change".²¹⁷

More recently, the Productivity Commission has initiated a public inquiry to report on "the impact of NCP and related reforms" and "areas offering opportunities for significant gains to the Australian economy from removing impediments to efficiency and enhancing competition".²¹⁸ While this inquiry is not specifically directed to determining the "public interest" test, it has sought submissions dealing with the consequences of applying the "public interest" test and posed specific questions about its application:

²¹¹ Government Response to the Report of the Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy, House of Representatives *Hansard*, 14 August 2000, p 16219 (Deputy President of the House of Representatives).

²¹² Response to the Report of the Senate Select Committee, n 211, p 16219.

²¹³ NCC Social Impacts Review, n 15, p 95.

²¹⁴ NCC Social Impacts Review, n 15, p 95.

²¹⁵ NCC Social Impacts Review, n 15, p 96.

²¹⁶ NCC Social Impacts Review, n 15, p 97.

²¹⁷ Council of Australian Governments Communiqué – 3 November 2000, n 32, att B.

²¹⁸ Productivity Commission, *Review of National Competition Policy Arrangements*, Issues Paper (Productivity Commission, 2004) pp i-ii.

“Are there procedural issues that need to be resolved for the future? For example, do current processes take appropriate account of adjustment issues? Is the current public interest test ... facilitating socially beneficial reform? Has it provided a means to avoid worthwhile reform in some areas? Have differences in the approach to legislation review and reform across jurisdictions had any significant impacts or outcomes?”²¹⁹

Despite these developments, how the “public interest” test is to be applied to assessing patent privileges set out in the *Patents Act 1990* (Cth) and *Trade Practices Act 1974* (Cth) remains uncertain, and is not really assisted by the various explanations of how to apply and determine the CPA’s criteria. The experience of the NCC, IPCR Committee and the RIS process, and now the Productivity Commission’s public inquiry, should provide some guidance, especially the IPCR Committee’s examination of parallel import restrictions and the additional issues considered by the IPCR Committee once it had accepted that the assumed and asserted benefits needed to be challenged. But, even with the ambiguity about the application and assessment of the “public interest” test, the underlying perspectives accepted by the NCC and the IPCR Committee should have been challenged and the evidence (and reasoning) supporting their conclusions that restrictions on competition were justified transparently identified.

5. Conclusions

The policy objective set out in the CPA is to promote competition by removing unjustified restrictions on competition in Australia.²²⁰ For statute based intellectual property laws the Hilmer Committee report expressed clear concern that these regulations potentially created barriers to entry that might restrict competition,²²¹ and that the need for exemptions for certain license and assignment conditions from the *Trade Practices Act 1974* (Cth) were uncertain.²²² This article has examined the various legislation reviews addressing patent privileges set out in the *Patents Act 1990* (Cth) and *Trade Practices Act 1974* (Cth) and legislative amendments to the *Patents Act 1990* (Cth) to assess the foundation evidence that might satisfy the requirements of the CPA. These analyses show important controversial issues have been glossed over, even though such an approach was open to both the NCC and IPCR Committee. Thus, a detailed competition analysis of the appropriate scope and allocation of patent privileges set out in the *Patents Act 1990* (Cth) and the *Trade Practices Act 1974* (Cth) has been avoided. According to this assessment these legislation reviews fail to meet the CPA’s requirements.²²³

Perhaps the most revealing part of the Hilmer Committee report was the recognition that “[r]egulation that confers benefits on particular groups soon builds a constituency with an interest in resisting change and avoiding rigorous and independent re-evaluation of whether the restriction remains justified in the public interest”.²²⁴ To address this particular constituency problem, the Hilmer Committee recommended that the onus of proving that the restriction on competition was justifiable should change from those advocating change to those advocating that the restriction on competition

²¹⁹ Productivity Commission, n 218, p 9.

²²⁰ *Competition Principles Agreement*, cl 5(1)

²²¹ See Hilmer Committee report, n 7, p 195.

²²² Hilmer Committee report, n 7, p 150.

²²³ The recent United States’ Federal Trade Commission (FTC) and Anti-trust Division of the Department of Justice have conducted an inquiry into the interaction between patents and competition law, although only the FTC report has been released examining the patent system maintaining a proper balance with competition law and policy: see Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Federal Trade Commission, 2003); interestingly, the report states “[t]he US economy also reflects the belief that limited exclusive rights in intellectual property – as distinguished from tangible property – can encourage innovation, which also benefits consumers” (p 1(4)), but in its analysis of the scope and allocation of patent rights, the FTC reviews the changing ascendancy of patent and competition law over the last century, but does not address the issue of the quantum of incentive and the different views about how much incentive is sufficient. This may reflect the particular circumstances of the United States as a net technology exporter with a strong interest in maintaining intellectual property privileges.

²²⁴ Hilmer Committee report, n 7, p 191.

remain in place, or be imposed.²²⁵ This was carried through to the CPA,²²⁶ although it does not appear to have featured in the NCC's and IPCR Committee's review of patent privileges. In contrast, the IPCR Committee's majority's approach to parallel importing under the *Copyright Act 1968* (Cth) expressly adopted this requirement. This suggests that a different approach and focus has significant potential to improve the assessment of patent privileges, and might be a guide to expanding the scope of analysis applied to the *Patents Act 1990* (Cth) and *Trade Practices Act 1974* (Cth) in future reviews.

The article suggests that assessing the controversy over appropriate patent scope and allocation are central to adequately addressing the CPA and patent privileges, although uncertainties about the threshold necessary for the benefit to outweigh the costs under the CPA and how they are to be applied and assessed leaves open further superficial analyses. To address this concern in future reviews of patent privileges, further direction might be set out in the Terms of Reference expressly addressing the broader debates about patent scope and allocation. However, the significance of the IPCR Committee's assessment of parallel import restrictions under the *Copyright Act 1968* (Cth) is to show that it is the approach and subsequent process of challenging assumptions of benefit that is more likely to deliver a comprehensive competition analysis under the CPA. Thus, it is undertaking the process of analysis proposed by the CPA that delivers better regulation by "questioning, understanding real world impacts, [and] exploring assumptions".²²⁷ Once patent privileges have been subject to a comprehensive competition analysis according to the CPA, including an assessment of patent scope and allocation, then a more rational patent policy that is more likely suited to the Australian community is likely.

²²⁵ Hilmer Committee report, n 7, p 190.

²²⁶ *Competition Principles Agreement*, cl 5(1).

²²⁷ Industry Commission, *Regulation and Its Review 1995-96*, Annual Report Series (1996) p 11.

ATTACHMENT 2

The evolution of “inventive step”-like elements in Australian patent laws

1. Introduction

In addressing the question whether the “manner of manufacture” was new (from s 6 of the *Statute of Monopolies* in 1624), early Australian courts determined whether the alleged invention was an advance on existing knowledge (now principally, though not exclusively, called “novelty”), and then whether this advance was sufficient to constitute an invention worthy of reward (now principally, though not exclusively, called “inventive step”).¹ Unfortunately the distinctions between “novelty” (sometimes said to be “lack of novelty”, “prior publication”, “anticipation”, “prior use” and so on) and “inventive step” (sometimes said to be “ingenuity”, “inventive faculty”, “subject-matter”, “inventive step”, and so on) were not always clear made.² The *Patents Act 1990* (Cth) has maintained the reference to a “manner of new manufacture” found in the earlier *Patents Act 1903* (Cth)³ and the *Patents Act 1952* (Cth),⁴ and separated out the grounds of “novelty” and “inventive step”.⁵ The purpose of this article is to examine the evolution of “inventive step”-like (or obviousness-like) elements (ISLEs) through the *Patents Act 1903* (Cth), the *Patents Act 1952* (Cth) and into the *Patents Act 1990* (Cth) outside the formal threshold of “inventive step” now separately proscribed by the *Patents Act 1990* (Cth).⁶

These ISLEs may arise in the *Patents Act 1990* (Cth) in the assessment of “invention”⁷ and “novelty”.⁸ The article questions the efficiency and effectiveness of leaving these ISLEs in place and whether the issues might better be determined solely as a question of “inventive step” on examination,⁹ opposition,¹⁰ re-examination¹¹ and revocation proceedings, including as a cross-claim to infringement.¹² The following parts examine the evolution of these ISLEs through the *Patents Act 1903* (Cth), the *Patents Act 1952* (Cth) and into the *Patents Act 1990* (Cth). The article’s conclusion that these ISLEs add unnecessary costs and complexity to Australia’s patent laws are then presented in the context of promoting regulatory quality and performance.

¹ See, for example, *Edison Bell Phonograph Corporation Ltd v Smith and Young* [1894] 11 RPC 389 at 398 (Lord Esher MR); *Lancashire Explosive Co Ltd v Roburite Explosives Co Ltd* [1895] 12 RPC 470 at 477 (Herschell LJ) and 480 (Smith LJ).

² See *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* (1989) 13 IPR 513 at 544-546 (Gummow J). For an historical overview of the origins of obviousness see, for examples, Beier F-K, “The Inventive Step in its Historical Development” (1986) 17 *International Review of Industrial Property and Copyright Law* (IIC) 301; Pila J, “Inherent Patentability in Anglo-Australian Law: A History” (2003) 14 *Australian Intellectual Property Journal* 109.

³ See, for example, *Patents Act 1903* (Cth), s 4.

⁴ See, for example, *Patents Act 1952* (Cth), s 35(1).

⁵ *Patents Act 1990* (Cth), ss 18(1)(b)(i) (“novelty”) and (ii) (“inventive step”).

⁶ *Patents Act 1990* (Cth), s 18(1)(b)(ii).

⁷ *Patents Act 1990* (Cth), s 18(1). Importantly, the term “invention” is defined to mean “any manner of new manufacture the subject of letters patent and grant of privilege within s 6 of the *Statute of Monopolies*, and includes an alleged invention” (sch 1). This may arise on examination (ss 45(1)(b) and (c); including a “modified examination”: ss 48(1)(a) and (b)), opposition (s 59(b)), re-examination (s 98(1) (pre-grant (s 97(1)) and post-grant (ss 97(2) and (3))), and revocation proceedings (including as a cross-claim to infringement) (ss 138(3)(b) (revocation) and 121(1) (cross-claim to infringement)).

⁸ *Patents Act 1990* (Cth), s 18(1)(b)(i). This may arise examination (s 45(1)(c); including a “modified examination”: s 48(1)(b)), opposition (s 59(b)), re-examination (s 98(1) (pre-grant (s 97(1)) and post-grant (ss 97(2) and (3))), and revocation proceedings (including as a cross-claim to infringement) (ss 138(3)(b) (revocation) and 121(1) (cross-claim to infringement)).

⁹ *Patents Act 1990* (Cth), s 45(1)(c). Notably including a “modified examination”: s 48(1)(b).

¹⁰ *Patents Act 1990* (Cth), s 59(b).

¹¹ *Patents Act 1990* (Cth), s 98(1)(b) (pre-grant (s 97(1)) and post-grant (ss 97(2) and (3))).

¹² *Patents Act 1990* (Cth), ss 138(3)(b) (revocation) and 121(1) (cross-claim to infringement).

2. The Patents Act 1903 (Cth)

The *Patents Act 1903* (Cth) required the Commissioner of Patents (Commissioner, and includes a delegate of the Commissioner) to refer an application¹³ to an examiner for report¹⁴ on various matters,¹⁵ including for the “complete specification”,¹⁶ as to “whether to the best of his knowledge the invention is or is not novel”.¹⁷ The term “invention” meant:

... any manner of new manufacture the subject of letters patent and grant of privilege within s 6 of the *Statute of Monopolies* (that is the Act of the twenty-first year of the reign of King James the First, chapter three, entitled “an Act concerning monopolies and dispensations, with penal laws and the forfeiture thereof”), and including an alleged invention.¹⁸

The Commissioner could “refuse to accept the application and specification”¹⁹ with an appeal open in the High Court and State Supreme Courts.²⁰ Once an application and specification had been accepted by the Commissioner,²¹ opposition (before grant)²² and revocation (after grant)²³ proceedings were available,²⁴ with avenues of appeal open to the High Court and State Supreme Courts.²⁵ The grounds of opposition included: “[t]hat the invention is not novel or has been already in possession of the public with the consent or allowance of the inventor”.²⁶ The grounds of revocation were: “[e]very ground on which a patent might at common law be repealed by *scire facias* shall be available”.²⁷

The *Patents Act 1903* (Cth) established some important foundations for ISLEs in the concepts of “is or is novel” and suitable patentable subject matter. This was primarily as a consequence of interpreting the opposition provisions, although these foundations were also readily apparent in the examination and revocation decisions.

2.1 “Is or is not novel”

The *Patents Act 1903* (Cth) only provided very limited grounds of opposition, including that “the invention is or is not novel” (and prior publication),²⁸ but leaving the more traditional challenge of want of subject matter (that the alleged invention is not a “manner of manufacture” and that it is not a

¹³ In the form prescribed: *Patents Act 1903* (Cth), ss 33(1) and 33(2).

¹⁴ Noting that these reports were not made publicly available, including in court proceedings, unless “desirable in the interests of justice and ought to be allowed”: *Patents Act 1903* (Cth), s 51.

¹⁵ *Patents Act 1903* (Cth), ss 39 (every application), 40 (complete specifications after a provisional specification) and 41 (all complete specifications).

¹⁶ *Patents Act 1903* (Cth), s 36 provides “[a] complete specification must fully describe and ascertain the invention and the manner in which it is to be performed, and must end with a distinct statement of the invention claimed”.

¹⁷ *Patents Act 1903* (Cth), s 41(b). This was an amendment made during the passage of the Bill, but reflecting the uncertainty about whether the examiner was capable of making a useful finding about novelty. See Commonwealth, *Parliamentary Debates*, Senate, 16 October 1903, pp 6246-6247 (Senator James Drake, Postmaster-General).

¹⁸ *Patents Act 1903* (Cth), s 4.

¹⁹ *Patents Act 1903* (Cth), s 46(b). Noting that there was provision to allow amendments to comply with the application and specification requirements (ss 42 and 45).

²⁰ *Patents Act 1903* (Cth), s 47(1). Noting the definitions of “State” and “Supreme Court” (s 4) and that decisions of the State Supreme Court were subject to appeal to the High Court: *Judiciary Act 1903* (Cth), s 35.

²¹ *Patents Act 1903* (Cth), ss 49 and 50.

²² *Patents Act 1903* (Cth), ss 66 and 67.

²³ *Patents Act 1903* (Cth), s 86(1).

²⁴ *Patents Act 1903* (Cth), ss 56 (opposition) and 86 (revocation).

²⁵ *Patents Act 1903* (Cth), s 58 (opposition). A revocation was commenced in the High Court or State Supreme Court (s 86(2)) and decisions of the State Supreme Court were subject to appeal to the High Court: *Judiciary Act 1903* (Cth), s 35.

²⁶ *Patents Act 1903* (Cth), s 56(e).

²⁷ *Patents Act 1903* (Cth), s 86(3).

²⁸ *Patents Act 1903* (Cth), ss 56(e) and 56(f) respectively.

“manner of *new* manufacture”) as part of the examination²⁹ and revocation³⁰ arrangements. The consequence was that the High Court recognized an element of inventiveness (sometimes referred to as “inventive faculty”) in the conception of “is or is not novel”.

The “is or is not novel” issue first came before the High Court in *Linotype Co Ltd v Mounsey* (1909) 9 CLR 194.³¹ There the device involved two or more sets of cleaning brushes put in distinct places in a linotype machine with the specification expressly acknowledging an earlier patented device with only one set of cleaning brushes placed anywhere (at 198-202). The objection raised in opposition was, in part, that the device was “not novel” following on from the earlier single cleaning brush device (at 196).

Chief Justice Griffith accepted that the term “novel” in patent law meant that “the alleged invention is substantially identical with a process or “manner of manufacture” already known to the public” (at 202), and then cited various authorities for the proposition that some skill and ingenuity was required for a “manner of new manufacture” (at 202-205). Based on comparing the alleged invention and the prior patent, Chief Justice Griffith concluded (at 206):

It is not, therefore, necessary in the present case to decide whether the absence of invention or ingenuity, as distinguished from substantial identity (if it can be distinguished), can be set up under an objection of want of novelty. I am strongly disposed to think that it can, at any rate where the absence is manifest. However that may be, the question of substantial identity is one of fact, which I think we are bound to determine for ourselves. I think the substantial identity is proved. That is sufficient to decide this case.

The result was that Chief Justice Griffith found the invention was not “novel”, as the points of difference between the alleged invention and the earlier patent was “quite immaterial”, albeit that there were differences (at 206).³²

Justice O’Connor formulated the issue as if there were differences between the alleged invention and “the common stock of knowledge”, “whether the difference involved such an exercise of the inventive faculty as is necessary to constitute “a manner of new manufacture” within the meaning of the *Patents Act 1903*” (at 206). However, Justice O’Connor concluded that the “alleged invention adds nothing to the common stock of knowledge respecting linotypes in existence at the date of his application, and that his alleged invention is therefore ‘not novel’”, and did not address the issue further (at 208).

Justice Isaacs cited various English and United States authorities, and concluded (at 213):

If he were the first in Australia to devise it, undoubtedly it would be new; but in view of Lock’s patent and the common knowledge previously existing, I come to the conclusion clearly and without hesitation that in fact the invention is old. There is no substantial difference between the invention comprised in previously existing knowledge and that comprised in the applicant’s invention. The essence of it all is old; its substance was already included within the bounds of public knowledge, and nothing was added to the old device except a mechanical arrangement which not only persons highly versed in the trade would be

²⁹ *Patents Act 1903* (Cth), ss 39-41. See, for examples, *Commissioner of Patents v Microcell Ltd* (1959) 102 CLR 233 (Dixon CJ, McTiernan, Fullagar, Taylor and Windeyer JJ); *Rogers v Commissioner of Patents* (1910) 10 CLR 701 (Griffith CJ, O’Connor and Isaacs JJ); *McDonald v Commissioner of Patents* (1912) 15 CLR 713 (Griffith CJ, Barton, Isaacs and Gavan Duffy JJ); *Millard v Commissioner of Patents* (1918) 24 CLR 331 (Barton, Gavan Duffy and Rich JJ).

³⁰ *Patents Act 1903* (Cth), s 86. See, for examples, *Acme Bedstead Co Ltd v Newlands Brothers Ltd* (1937) 58 CLR 689 (Latham CJ, Starke and Dixon JJ); *Broken Hill South Silver Mining Co v N Guthridge Limited* (1908) 8 CLR 187 (Isaacs J).

³¹ Notably there was some earlier discussion about this issue. See, for example, *Moore and Hesketh v Phillips* (1907) 4 CLR 1411 at 1415 (Griffith CJ).

³² Chief Justice Griffith stating that: “[t]he only points of difference are (1) that by the applicant’s invention the intaglio of the type upon the matrix is cleaned as well as the indicating letter; (2) that both edges are cleaned at once; (3) that they are cleaned twice instead of once only; and (4) that the places chosen for the cleaning and the shape of the brush are different” (at 206).

expected to employ where the necessity called for it, but would be suggested by commonsense to any person acquainted with Lock's mechanism and using the ordinary experience of life.

In contrast, Justice Higgins considered the opposition was crafted by Parliament to prevent patent grants that were "obviously and hopelessly bad, and which put the public at expense and annoyance" (at 216). The issue for Justice Higgins was, therefore, whether there was "a substantial margin in fact between the [prior published patented] device and the applicant's; and if there is, there is novelty, whether the novelty shows sufficient inventiveness or not" (at 217). On the facts, Justice Higgins considered that it was "simply unthinkable" that the single brush device was "substantially identical" to the two or more brush device of the applicant's, thus finding there was novelty (at 222).

Later, in *McGlashan v Rabett* (1909) 9 CLR 223 the High Court considered an opposition for a combination patent for an improved ballast spreader used in railway construction. Chief Justice Griffith considered the opposition ground of "not novel" included that the invention was "substantially anticipated", "substantially the same" and that "there is no substantial inventive faculty involved in such differences as there are between the new appliance and others already existing" (at 226). Justice O'Connor considered that it was not enough to show that the device was new compared to the "existing knowledge"; there was a requirement to show "the patent has sufficient novelty to enable the specification to be good" (at 228-229). The matter was, however, decided on the basis that the objector had not provided sufficient evidence to satisfy the court that there was no novelty, and that in those circumstances the court should not refuse a patent grant (at 228 (Griffith CJ), 229 (O'Connor J) and 229-230 (Isaacs J)).

The outcome from both *Linotype Co Ltd v Mounsey* and *McGlashan v Rabett* was to leave open speculation about the nature and character of "is or is not novel". This uncertainty persisted in a number of subsequent High Court decisions.³³ The uncertainty was then authoritatively addressed by the High Court in *Gum v Stevens* (1923) 33 CLR 267.³⁴ This was significant as the Patent Office appeared to have adopted the practice of excluding on opposition, and presumably also as part of the "novelty" report on examination,³⁵ that "is or is not novel" included any aspect of an ISLE.³⁶

In *Gum v Stevens* a patent application addressing an improved lubricating device for vehicles was opposed, in part, on the grounds of "not novel". The Commissioner, in deciding the opposition proceedings, had accepted the application on the basis that (at 268):

The invention of the applicants consists in a combination, and it differs from the inventions cited by the opponents in that the duct is formed in a particular way with a valve or nipple which is adapted to pass grease or lubricating material from a grease-gun, syringe, or pump. It is a combination which, according to the evidence, is new, and was unknown to the opponent at the date of the application for the patent. For these reasons, and acting upon the principle that the grant of a patent should not be refused unless it is quite clear that the patent, if granted, would be obviously bad ... I am of the opinion that the patent should be granted.

On appeal in the Victorian Supreme Court, Justice Mann in *Gum v Stevens* [1924] VLR 1 had allowed the opposition finding that there was neither "novelty" in the idea nor "novelty" in the means of

³³ See, for examples, *Griffith v Neilson* (1911) 13 CLR 131 (Griffith CJ and O'Connor J); *May v Higgins* (1916) 21 CLR 119 (Griffith CJ, Barton, Isaacs and Rich JJ); *Stamp v WJ Powell Pty Ltd* (1918) 24 CLR 339 (Barton, Gavan Duffy and Rich JJ).

³⁴ See also *Acme Bedstead Co Ltd v Newlands Bros Ltd* (1937) 58 CLR 689 (Latham CJ, Starke and Dixon JJ); *Palmer v Dunlop Perdriau Rubber Co Ltd* (1937) 59 CLR 30 (Latham CJ, Rich, Dixon and McTiernan JJ); *Murray Deodorisers Ltd v James Bell Machinery Pty Ltd* (1939) 13 ALJ 89 (Latham CJ, Starke and Evatt JJ); *Hume Pipe Co (Aust) Ltd v Monier Industries Ltd* (1943) 13 AOPJ 575 (Dixon J).

³⁵ See *Patents Act 1903* (Cth), s 41(b).

³⁶ The phrase "inventive faculty" was used by the High Court. See, for examples, *Gum v Stevens* (1923) 33 CLR 267, 270 (Isaacs J); *McGlashan v Rabett* (1909) 9 CLR 223 at 226 (Griffith CJ); *Linotype Co Ltd v Mounsey* (1909) 9 CLR 194 at 206 (O'Connor J).

invention (at 2-4). In the High Court ((1923) 33 CLR 267) the appellants contended that the requirement for the exercise of an “inventive faculty” was “entirely foreign to the question of novelty” (at 269 (Isaacs J)). The High Court dismissed the appeal confirming the decision of the Victorian Supreme Court (at 269 (Knox CJ), 269 (Isaacs J) and 272 (Starke J)). Chief Justice Knox agreed with the conclusions of Justice Mann, and so also his reasoning (at 269). Both Justices Isaacs and Starke also agreed (at 269 (Isaacs J) and 272 (Starke J)), although expressing slightly different reasons.

Justice Isaacs referred only to the earlier High Court decision in *McGlashan v Rabett*, pointing out that “it is quite easy to see how misunderstanding can arise” in considering the terms “novel” and “invention” (at 269-270). He then considered the various senses in which the term “invention” had “flexible” and “variable” meanings (at 270):

In *British United Shoe Machinery Co v Fussell & Sons Ltd* [[1908] 25 RPC 631 at 651] Fletcher Moulton LJ says: “The word invention is used in at least three senses in connection with these subjects, and ... these three senses are quite distinct. First of all we say that to support a patent there must be invention. There it means an inventive act. Then we talk about a person getting a monopoly for an invention. There it means a thing which is new and that has required an inventive act to produce it. There is also an intermediate sense in which it is used, that is to say, you sometimes speak of a patentee’s invention, meaning the particular inventive act which this inventor has performed”. Now, there it must not be taken that *McGlashan v Rabett* decides that, when “novelty” is under consideration, there must be an absolute exclusion of “invention” in all its senses.

Following recourse to earlier United Kingdom authority supporting his contention that “novelty” includes some element of invention (at 270-271), Justice Isaacs then concluded that the decision in *McGlashan v Rabett* did not exclude a consideration of “‘invention’ in the relevant sense” when considering the “‘novelty’ of a new application of an old device” (at 271), where the relevant sense of “invention” means “a thing which is new and that has required an inventive act to produce it” (at 271).

Meanwhile, Justice Starke considered that the decisions in *McGlashan v Rabett* and *Linotype Co v Mounsey* had been misunderstood as there was “no clear line of demarcation between subject matter and novelty” (at 272). He then referred to the three questions identified by Lord Justice Fletcher Moulton: “Firstly, is it a manufacture? Secondly, is it new? Thirdly, is it a new manufacture or, in other words, does it involve invention?” (at 272). In his opinion the alleged invention was lacking in “novelty” because at the date of the application there was another similar device so that the “substitution of the valve or nipple ... for the cup, was therefore an obvious method of carrying out the same object, and by means of a device perfectly well known for lubricating purposes” (at 271-272). Justice Starke’s decision clarified that a want of “novelty” resulted in a want of subject matter, and that facts supporting a want of “novelty” may also support an objection to want of subject matter (at 272).³⁷ This distinction followed from the construction of the opposition provision that only addressed want of “novelty”, confirming that the same facts might address both want of “novelty” and subject matter (at 272). However, his decision also clarified that want of “novelty” included an ISLE, albeit not clearly delineated (at 271-272).

Thus, Chief Justice Knox’s and Justices Isaacs’ and Starke’s decisions confirmed that the ground of opposition of “is or is not novel” had a broad meaning, reflecting the contention of Justice Mann in the Victorian Supreme Court ([1924] VLR 1 at 4):

This familiar argument rests, as has been often pointed out, upon the assumption that the defence of “want of subject-matter”, as loosely used in patent actions to express want of invention, in some way limits the meaning of novelty as used in the Patents Act. The requirement of novelty is the foundation of the grant, and it is not to be reduced to a mere shadowy requirement by first assigning a meaning to “subject-matter”, an expression not found in the Act, and then limiting the meaning of “novelty” to that which falls outside “subject-matter”.

³⁷ This included citing Chief Justice Griffith in *Linotype Co v Mounsey* (1909) 9 CLR 194 at 202 in support of this contention.

Subsequent opposition decisions of the High Court clarified the scope and operation of want of “novelty”, although failing to provide a definitive demarcations or clear statements about the necessary ISLE.³⁸ These opposition decisions had, however, definitively established an ISLE as part of the “is or is not novel” inquiry.

2.2 “Invention”

In contrast to opposition proceedings, in revocation proceedings (“[e]very ground on which a patent might at common law be repealed by *scire facias* shall be available”)³⁹ ISLEs were readily apparent. A case that perhaps best illustrates this was *Acme Bedstead Co Ltd v Newlands Brothers Ltd* (1937) 58 CLR 689. There the High Court considered a revocation cross-claim to infringement that the alleged invention was not proper subject matter “having regard to general common knowledge in the art in which said invention belongs” (at 700 (Latham CJ)). The alleged invention combined previously known elements for an improved hospital bed. The elements were a ratchet and pawl device (a jack) in a non-rotatable (rectangular) telescopic post to raise a bed, and attached to an inverted “U-tube” to prevent tipping at one end of the bed allowing the bed to be operated by a single person (at 693). The difference between the disputed claim(s) and the earlier published invention was the substitution of a well-known ratchet and pawl mechanism for “the obviously defective and analogous elevating mechanism”.⁴⁰

In earlier proceedings in the NSW Supreme Court in *Acme Bedstead Co Ltd v Newlands Brothers Ltd* (1937) 37 SR (NSW) 239 the grounds of defence against the challenge of infringement were that the patent claims were lacked “novelty” and did not possess subject matter (at 235). In allowing the appeal, the Supreme Court articulated that “novelty” was an essential element of patentability both in the broad sense – “simply different from anything previously published or used in the relevant area” (at 240) – and in the narrow sense – “not only that it should be different from what has gone before, but that the difference should be one which involves invention” (at 240). Where an alleged invention possessed both broad and narrow “novelty”, then “the device is said to possess subject matter” (at 240). The test to be applied (at 240):

... for determining whether a difference involves invention is whether the idea introducing the difference, and also of making it in the form in question, are ideas which would have been obvious to any person skilled in the relevant art at the date of the application for the patent, if he had had the alleged anticipation before him.

In determining “novelty” the relevant evidence was considered to be either prior publications or common knowledge, or a combination of both (at 240). As in the present case, where the difference between the alleged invention and the prior publications was common knowledge, this required more than “what would naturally have suggested itself to anyone possessing common knowledge” (at 240). On the facts in the Supreme Court, there was found to be no “inventive faculty” in substituting the well-known ratchet and pawl mechanism and so a want of subject matter was established (at 242).

In the High Court ((1937) 58 CLR 689), Chief Justice Latham found there was no subject matter because there was a need to show an “inventive step” and this was not satisfied as the alleged invention was a combination of “well-known mechanical integers and ... used each of them for its natural and well known purpose” – there was “no inventive ingenuity” (at 700). For Justice Starke all the elements of the alleged invention were “old” and the question was “whether the aggregation or

³⁸ See, for examples, *Griffin v Isaacs* (1942) 12 AOJP 739 (Latham CJ, Starke, Dixon and McTeirnan JJ); *William Arnott Ltd v Peak Frean & Co Ltd* (1935) 9 ALJ 73 (Rich, Strake, Dixon, Evatt and McTeirnan JJ); *Hume Pipe Co (Aust) Ltd v Monier Industries Ltd* (1943) 13 AOJP 575 (Dixon J); *Murray Deodorisers Ltd v James Bell Machinery Pty Ltd* (1939) 13 ALJ 89 (Latham CJ, Starke and Evatt JJ).

³⁹ *Patents Act 1903* (Cth), s 86(3).

⁴⁰ *Acme Bedstead Co Ltd v Newlands Brothers Ltd* (1937) 37 SR (NSW) 239 at 242 (Jordan CJ, Long Innes CJ in Equity and Davidson J).

combination of them involved the exercise of inventive genius or only a mechanical adaptation” (at 702). Justice Starke concluded the alleged invention lacked subject matter because it did “not involve the exercise of any inventive faculty but only mechanical skill in adapting an old contrivance to an analogous use” (at 703). For Justice Dixon the question was whether the device “amounts to an invention forming subject matter for a patent” (at 705). He concluded that “[n]o evidence is needed to show that very familiar and very old expedients are employed” (at 706). The outcome in each judgment was to find an ISLE in the subject matter inquiry (at 701-702 (Latham CJ), 704 (Starke J) and 709 (Dixon J)).

Chief Justice Latham and Justices Starke and Dixon also considered the anticipation of the alleged invention from prior publications (at 700-701 (Latham CJ), 703-704 (Starke J) and 706-708 (Dixon J)). The contention was that a paper anticipation must precisely show the whole claimed invention and how to make and use it, and that the earlier patent specification relevant to this alleged invention did not make the necessary disclosures. Chief Justice Latham and Justice Starke rejected this contention finding that the difference between what was disclosed in the prior specification and the alleged invention was “an obvious course to adopt for the attainment of the desired objective” and “no room is left for the exercise of any inventive faculty” respectively (at 701 (Latham CJ) and 704 (Starke J)). Justice Dixon was more circumspect, noting the various approaches in earlier decisions (at 707), but concluding that the device was simply the application of well-known mechanisms to achieve an obvious advantage and this was not proper subject matter (at 709).⁴¹

Like the revocation proceedings, ISLEs were also readily apparent in the examination proceedings. For example, in *Commissioner of Patents v Microcell Ltd* (1959) 102 CLR 233 the High Court considered whether a tube of synthetic resinous plastic material reinforced with mineral fibers used for self-propelled-rocket projectors satisfied the examiner as to “whether to the best of his knowledge the invention is or is not novel”.⁴² This requirement was separated into enquires of whether the complete specification discloses an “invention” within the meaning of the *Patents Act 1903* (Cth) and whether that invention was “is or is not novel” (at 243). The High Court, comprising Chief Justice Dixon and Justices McTiernan, Fullagar, Taylor and Windeyer, only addressed “invention”, recognizing that on examination “the Commissioner ought not to refuse acceptance of an application and specification unless it appears practically certain that letters patent granted on the specification would be held invalid” (at 245).⁴³ The High Court found that the complete specification did not disclose an “invention”⁴⁴ because it was merely a claim for a known and used substance, and used for a purpose for which its properties made it suitable (analogous use) (at 247-251).⁴⁵ “[i]f stainless steel and its properties were known, and many kinds of articles had been made of it, it would not be possible for a man to claim a monopoly for making kitchen sinks of stainless steel merely because he was the first man who ever thought of doing this” (at 248).⁴⁶ Applying this reasoning the High Court

⁴¹ Citing *Adelman and Ham Boiler Corporation v Llanrwst Foundry Co* [1928] 45 RPC 413 at 420 (Maugham J).

⁴² *Patents Act 1903* (Cth), s 41(b). See *Commissioner of Patents v Microcell Ltd* (1959) 102 CLR 233 at 243-244 (Dixon CJ, McTiernan, Fullagar, Taylor and Windeyer JJ).

⁴³ Noting that a later High Court majority in *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1995) 183 CLR 655 at 665 (Brennan, Deane and Toohey JJ) rejected an argument that this was a case of “newness” as opposed to “manner of new manufacture”.

⁴⁴ Applying the “appears practically certain” standard that “it should be clear on its face that the specification discloses no inventive step”: *Commissioner of Patents v Microcell Ltd* (1959) 102 CLR 233 at 246 (Dixon CJ, McTiernan, Fullagar, Taylor and Windeyer JJ).

⁴⁵ Citing *Re AF's Application* [1913] 31 RPC 58 (Sir Stanley Buckmaster), *In Re BA's Application* [1915] 32 RPC 348 (Sir Stanley Buckmaster), *Re D Co's Application* [1921] 38 RPC 397 (Sir Ernest Pollock), *Re CGR's Application* [1924] 42 RPC 320 (Sir Thomas Inskip) and *Re L & G's Application* [1940] 58 RPC 21 (Morton J).

⁴⁶ Notably, the decision in *Re Application of Compagnies Reunies des Glaces* [1930] 48 RPC 185 at 189 (Sir Stafford Cripps) might provide a useful contrasting decision, as there, the known qualities of hardened glass and glazing were applied to vehicle windshields was not sufficient to deny a patent as there was no prior publications and no prior claims. For a similar and more recent Australian example, see *Bristol-Myers Squibb Co v FH Faulding & Co Ltd* (2000) 46 IPR 553 (Black CJ, Lehane and Finkelstein JJ) finding that a claim to a

unanimously concluded: “we do not think it can be said, merely because it does not seem previously to have occurred to anyone to make a rocket projector out of reinforced plastic, that any inventive idea is disclosed by the specification” (at 250).

While definitive statements of principle about the place of obviousness under the *Patents Act 1903* (Cth) are difficult to make, it was clear that ISLEs were apparent in the examination, opposition and revocation decisions in determining “novelty” and subject matter. Following a number of reviews and changes to the British Patents Acts,⁴⁷ an Australian committee (the Knowles Committee) was appointed in 1935 to review the operation and performance of the *Patents Act 1903* (Cth).⁴⁸ The outbreak of war prevented enactment of its recommendations and a subsequent committee (the Spicer Committee) was appointed to undertake a similar task and reported in 1950.⁴⁹ The Spicer Committee, following the lead of the British *Patents Act 1932* (UK), the *Patents Act 1949* (UK) and the earlier Knowles Committee,⁵⁰ expanded and set out the grounds of opposition and revocation.⁵¹ In dealing with opposition, the Spicer Committee stated (at 14):

[The new clause] broadens the grounds of opposition and states them in language consistent with the language of the corresponding grounds of revocation. Want of invention, or the fact that an invention is obvious, is now made a ground of opposition; this gives legislative effect to the view taken by the High Court of the position under the existing Act.

The *Patents Act 1952* (Cth) was subsequently enacted, replaced the *Patents Act 1903* (Cth) and introduced “obviousness” as an explicit ground of opposition and revocation.⁵² However, the *Patents Act 1952* (Cth) did not finally determine the modern conception of “inventive step” and maintained ISLEs in the “novelty” and “invention” (or “manner of new manufacture”) inquires.

3. The *Patents Act 1952* (Cth)

Under the *Patents Act 1952* (Cth) the Commissioner could “refuse to accept the application and complete specification”⁵³ if it did not “comply with the requirements of the Act”,⁵⁴ with an appeal open through the courts.⁵⁵ Once an application and specification had been accepted,⁵⁶ opposition (before grant)⁵⁷ and revocation (after grant)⁵⁸ proceedings were available,⁵⁹ with avenues of appeal

dosage regime of a known chemical compound (Taxol) for a known therapeutic use based upon known properties and involving no new method of administration was patentable.

⁴⁷ See, for example, Board of Trade, *Report of the Departmental Committee on the Patents and Designs Acts and Practice of the Patent Office* (1932).

⁴⁸ Commonwealth of Australia, *Report of the Committee Appointed by the Attorney-General of the Commonwealth to Consider what Alternations are Desirable in the Patent Law of the Commonwealth* (AGPS, 1952) p 19-58 (*Report and Supplementary Reports of the Committee Appointed during 1935 by the then Attorney-General to Consider What Alterations Were Desirable in the Patent Law of the Commonwealth*) (Knowles Committee).

⁴⁹ Commonwealth of Australia, *Report of the Committee Appointed by the Attorney-General of the Commonwealth to Consider what Alternations are Desirable in the Patent Law of the Commonwealth* (AGPS, 1952) p 1 (Spicer Committee).

⁵⁰ See Knowles Committee, n 48, p 27.

⁵¹ Spicer Committee, n 49, pp 14 and 16.

⁵² *Patents Act 1952* (Cth), ss 59(g) (opposition) and 100(e) (revocation).

⁵³ *Patents Act 1952* (Cth), s 52(2). Noting that there was provision to allow amendments to comply with the application and complete specification requirements (s 49).

⁵⁴ *Patents Act 1952* (Cth), s 48(2)(a).

⁵⁵ *Patents Act 1952* (Cth), ss 52(8) and 146. This appeal was originally to the High Court.

⁵⁶ *Patents Act 1952* (Cth), s 52(1).

⁵⁷ *Patents Act 1952* (Cth), s 62.

⁵⁸ *Patents Act 1952* (Cth), s 99.

⁵⁹ *Patents Act 1952* (Cth), ss 59 (opposition) and 99 (revocation).

open through the courts.⁶⁰ The *Patents Act 1952* (Cth) expressly separated out the requirements of novelty and obviousness as grounds of opposition⁶¹ and revocation,⁶² but not as part of the report of examination.⁶³ There the necessary ISLE was considered to be part of the existing requirement conveyed by the term “manner of new manufacture” in s 6 of the *Statute of Monopolies*, and as a consequence, was a part of the examination requirements.⁶⁴ The effect was stated to be to establish a “fundamental difference” between novelty and obviousness and deal with each specifically and exhaustively.⁶⁵ However, even the grounds of opposition and revocation that the invention was “otherwise not novel in Australia”⁶⁶ and “was not novel in Australia”,⁶⁷ respectively, maintained ISLEs.

3.1 “Invention”

Under the *Patents Act 1952* (Cth) the examination of a patent specification did not expressly require the Commissioner to consider “novelty” or “obviousness”, but rather, whether the application and complete specification “comply with the requirements of the Act”.⁶⁸ In *National Research Development Corporation v Commissioner of Patents* (1959) 102 CLR 252 the High Court, comprising Chief Justice Dixon and Justices Kitto and Windeyer, considered a challenge against a decision of the Deputy Commissioner of Patents directing that a number of claims to a method of selectively eradicating weeds with chemical compounds be removed (at 260-261). The High Court unanimously considered that “comply with the requirements of the Act” included determining whether there was a patent being “letters patent for an invention” where “invention” was the s 6 of the *Statute of Monopolies* “any manner of new manufacture” (at 260). In applying the standard the Deputy Commissioner considered the method claims were not a “manner of manufacture” because “they are claims to the mere use of known substances – which use also does not result in any vendible product” (at 261). The High Court, however, recited its then recent decision in *Commissioner of Patents v Microcell Ltd* (under the *Patents Act 1903* (Cth)) for the proposition that “new” in “manner of new manufacture” meant that the Commissioner could, when considering the complete specification as a whole, reject claims for a mere “new use of an old substance” (at 262)⁶⁹ saying (at 264):

... where a person finds out that a useful result may be produced by doing something which has not been done by that procedure before, his claim for a patent is not validly answered by telling him that although there was ingenuity in his discovery that the materials used in the process would produce the useful result no ingenuity was involved in showing how the discovery, once it had been made, might be applied. The fallacy lies in dividing up the process that he puts forward as his invention. It is the whole process that must be considered; and he need not show more than one inventive step in the advance which he has made beyond the prior limits of the relevant art.

⁶⁰ *Patents Act 1952* (Cth), ss 60(5) and 146 (opposition). A revocation was commenced in the Federal Court (originally in the High Court or State Supreme Court (s 86(2)) and decisions of the State Supreme Court were subject to appeal to the High Court: *Judiciary Act 1903* (Cth), s 35.

⁶¹ *Patents Act 1952* (Cth), s 59(1)(g).

⁶² *Patents Act 1952* (Cth), s 100(1)(e).

⁶³ See *Patents Act 1952* (Cth), s 48(2).

⁶⁴ *Patents Act 1952* (Cth), s 35(1) (examination). See *Commissioner of Patents v Microcell* (1959) 102 CLR 232 at 245-246 (Dixon CJ, McTeirnan, Fullagar, Taylor and Windeyer JJ).

⁶⁵ See *Advanced Building Systems Pty Limited v Ramset Fasteners (Aust) Pty Limited* (1998) 194 CLR 171 at 181-182 and 189-190 (Brennan CJ, Gaudron, McHugh and Gummow JJ); *Wellcome Foundation Ltd v VR Laboratories (Aust) Pty Ltd* (1981) 148 CLR 262 at 270 (Aickin J); *Sunbeam Corporation v Morphy-Richards (Aust) Pty Ltd* (1961) 180 CLR 98 at 111 (Windeyer J); *Graham Hart (1971) Pty Ltd v SW Hart & Co Pty Ltd* (1978) 141 CLR 305 at 330 (Aickin J).

⁶⁶ *Patents Act 1952* (Cth), s 59(1).

⁶⁷ *Patents Act 1952* (Cth), s 100(1).

⁶⁸ *Patents Act 1952* (Cth), s 48(2)(a).

⁶⁹ Citing *Re BA's Application* [1915] 32 RPC 348 at 349 (Buckmaster LJ).

The High Court then distinguished the present matter on the basis that the complete specification did disclose something more than a mere new use of an old substance (at 265):

It is irrelevant, even if true, that once the discovery was made that the chemicals produce a lethal reaction when applied to the weeds and produce no such reaction when applied to the crops there was no more ingenuity required in order to show how the process might be performed. The point that matters is that a weed-killing process is claimed which is distinguished from previously known processes by a feature the suggestion of which for such a process involved a step plainly inventive.

In other words, *National Research Development Corporation v Commissioner of Patents* maintained an element of inventive step in the assessment of “manner of new manufacture”. It is not clear whether this same standard was then subsumed by the considerations of “novelty” and “obviousness” in opposition and revocation proceedings. Notably, the grounds of opposition under the *Patents Act 1952* (Cth) included “that the invention, so far as claimed in any claim, is not a manner of manufacture within the meaning of s 6 of the *Statute of Monopolies*”.⁷⁰ By expressly excluding “new” in the statement of “manner of manufacture” there may arguably have been an attempt to limit the scope of inquiry to expressly exclude considerations of “novelty” and “obviousness”⁷¹ (albeit that “invention” meant “any manner of new manufacture”).⁷² However, another ground was “that the invention, so far as claimed in any claim, was, before the priority date of that claim, otherwise not novel in Australia”⁷³ that bears a resemblance to the *Patents Act 1903* (Cth) “that the invention is not novel”.⁷⁴ In interpreting the *Patents Act 1903* (Cth) provision the High Court had first to determine that there was an “invention” and this included an assessment of whether there was a *Statute of Monopolies* “manner of new manufacture”.⁷⁵ In contrast, the grounds of revocation under the *Patents Act 1952* (Cth) included “that the invention, so far as claimed in any claim of the complete specification ... is not an invention within the meaning of this Act”.⁷⁶ There seems little doubt that this assessment would include an element of “inventive step” in the assessment of “manner of new manufacture”.

In *Advanced Building Systems Pty Limited v Ramset Fasteners (Aust) Pty Limited* (1998) 194 CLR 171 the High Court, comprising Chief Justice Brennan and Justices Gaudron, McHugh and Gummow (and Justice Kirby dissenting), considered a cross-claim of revocation for alleged infringement of a patent claiming “the provision of an elongated lever arm to which a remote release cable was attached, for use in face-lift tilt-up applications”.⁷⁷ “Novelty” was not determined in the Full Federal Court decision and “obviousness” had been abandoned (at 180-181).⁷⁸ The question for the High Court was therefore limited to whether the Full Federal Court had inappropriately included assessments of “novelty” and “obviousness” in assessing “invention” and its meaning (at 182). The Full Federal Court in *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* (1996) 34

⁷⁰ *Patents Act 1952* (Cth), s 59(1)(f).

⁷¹ This seems at least likely as even the very early decisions of the High Court considered that “manner of new manufacture” involved two questions; “whether it is a ‘manner of manufacture’ and whether it is ‘new’”. See, for example, *Linotype Co Ltd v Mounsey* (1909) 9 CLR 194 at 202 (Griffith CJ). See also *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1995) 183 CLR 655 at 670-671 (Dawson and McHugh JJ).

⁷² *Patents Act 1952* (Cth), s 6.

⁷³ *Patents Act 1952* (Cth), s 59(1)(h).

⁷⁴ *Patents Act 1903* (Cth), s 56(e).

⁷⁵ See, for example, *McGlashan v Rabett* (1909) 9 CLR 223 (Griffith CJ, O’Connor and Isaacs JJ).

⁷⁶ *Patents Act 1952* (Cth), s 100(1)(d).

⁷⁷ See *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* (1996) 34 IPR 256 at 263-266 (Lockhart, Beazley and Sackville JJ).

⁷⁸ Notably similar arguments were addressed in *Sunbeam Corporation v Morphy-Richards (Aust) Pty Ltd* (1961) 180 CLR 98 at 111 (Windeyer J) but not addressed further because both “novelty” and “obviousness” were also addressed so that it was not necessary to deal with the whether the “the alleged invention ‘did not involve any inventive ingenuity in the light of the prior art as disclosed by prior publications’”. See also *Welch Perrin & Co Pty Ltd v Worrel* (1961) 106 CLR 588 at 622 (Dixon CJ, Kitto and Windeyer JJ).

IPR 256 had concluded that the patent claims lacked the necessary “inventive merit” required for an “invention” within the meaning of the Act (at 272)⁷⁹ referring to earlier Full Federal Court decisions in *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* (1989) 13 IPR 513 and *WR Grace & Co v Asahi Kasei Kogyo Kabushiki Kaisha* (1993) 25 IPR 481 (at 271). The High Court majority ((1998) 194 CLR 171), however, considered that the phrase “inventive merit” had “led the Full [Federal] Court into an assumed construction of s 100(1)(d) which was at odds with the structure of s 100 and diverted it from consideration of the question (obviousness having been abandoned) of whether any other prior publications destroyed the novelty of either or both of the claims of the Patent” (at 190-191). The majority referred the matter back to the Full Federal Court to consider the “novelty” issues that had been addressed by the trial judge but had not been considered by the Full Federal Court (at 180-181 and 193).⁸⁰ The majority clearly stated: “[n]ovelty and obviousness are dealt with specifically and exhaustively in pars (e) and (g)” (at 190). Meanwhile Justice Kirby considered the Full Federal Court had reached the correct decision as the combination was a “mere collocation of well-known integers” and this assessment was not confined to the face of the specification (at 197).

3.2 “Not novel”

The remaining question is whether the specific and separate grounds of “novelty” in the *Patents Act 1952* (Cth) retained any ISLE, or whether this had been entirely incorporated in the ground of “obviousness”. Notably the *Patents Act 1932* (UK) had used the phrase “not new”⁸¹ while the *Patents Act 1952* (Cth) used the phrase “not novel”.⁸² Arguably, the use of the term “novelty” in the *Patents Act 1903* (Cth) and the phrase “not novel” in the *Patents Act 1952* (Cth) means that the “novelty” concepts in the *Patents Act 1903* (Cth) may have carried over to the *Patents Act 1952* (Cth). In other words, did some ISLE remain in the assessment of “novelty” under the *Patents Act 1952* (Cth)? This assessment is made more difficult because the *Patents Act 1952* (Cth) also included as grounds of opposition that the invention as claimed was “published in Australia” before the priority date,⁸³ perhaps suggesting that “novelty” included more than just prior “publishing”. The High Court in *Aktiebolaget Hässle v Alphapharm Pty Limited* (2003) 212 CLR 411 comprising Chief Justice Gleeson and Justices Gaudron, Gummow and Hayne, however, while not expressly excluding an ISLE from the ground of “novelty” appeared to consider that the distinction has been drawn in the separate heads of “novelty” and “inventive step” (at 422-423):⁸⁴

The use of terms such as “obviousness”, and lack or absence of “ingenuity”, “subject-matter” and “inventive step”, to distinguish a ground of revocation from that involved with “lack of novelty”, “prior publication”, “anticipation” and “prior use”, has a fairly lengthy and evolving history in the decisions on patent law before the embodiment of the distinction in modern legislation.

However, there is some clear High Court authority for the proposition that the *Patents Act 1952* (Cth) conception of “novelty”⁸⁵ was an unaltered representation of the common law conception of “novelty”.⁸⁶ There is also some distinct authority in the Full Federal Court expressly addressing this

⁷⁹ See also *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* (1996) 34 IPR 256 (Lockhart, Beazley and Sackville JJ).

⁸⁰ Notably, the majority (at 191-192) distinguished the decision of the majority in *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1995) 183 CLR 655 at 663 and 666 (Brennan, Deane and Toohey JJ) on the basis that there the *Patents Act 1990* (Cth), s 138 revocation provisions were “significantly different in structure from s 100” of the *Patents Act 1952* (Cth) and that the lack of an inventive step there appeared on the face of the specification.

⁸¹ *Patents Act 1932* (UK) s 25(1)(e).

⁸² *Patents Act 1952* (Cth), ss 59(1)(h) (opposition) and 100(1)(g) (revocation).

⁸³ *Patents Act 1952* (Cth), ss 59(1)(e) (opposition).

⁸⁴ Citing *R D Werner & Co Inc v Bailey Aluminium Products Pty Ltd* (1989) 25 FCR 565 at 569-584 (Lockhart J) and 591-601 (Gummow J). See also *Sunbeam Corporation v Morphy-Richards (Aust) Pty Ltd* (1961) 180 CLR 98 at 114 (Windeyer J).

⁸⁵ See *Patents Act 1952* (Cth), s 100(g).

⁸⁶ See, for examples, *Rose Holdings Pty Ltd v Carlton Shuttlecocks Ltd* (1957) 98 CLR 444 at 450 (Williams J); *HPM Industries Pty Ltd v Gerard Industries Ltd* (1957) 98 CLR 424 at 437 (Williams J).

matter.⁸⁷ For example, in *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* (1989) 13 IPR 513 only “novelty” was in issue and the contention was “that inventiveness or ingenuity is a necessary element in novelty so that an objection to the grant of a patent on the ground of want of novelty necessarily involves an inquiry as to inventiveness” (at 517 (Lockhart J)) or an “exertion of the mind that could properly be called invention” (at 537 (Gummow J)). Justice Lockhart considered that the earlier High Court decisions were only authority for the proposition that lack of inventiveness was part of the ground of want of “novelty” if “it is a very clear case of absence of invention, or of something which obviously possesses no inventive merit whatsoever” (at 531).⁸⁸ However, he clearly accepts that these grounds are not totally separate reflecting their historical origins (at 532-533). Meanwhile, Justice Gummow, with whom Justice Jenkinson agreed (at 535), after tracing through earlier High Court decisions, stated (but did not conclude) that the *Patents Act 1952* (Cth) avoided the “difficulties” by distinguishing between “novelty” and “obviousness” (at 549):

The present legislation [the *Patents Act 1952* (Cth)] is properly to be regarded as meeting what was a somewhat anomalous situation that evolved in the interpretation of the [*Patents Act 1903* (Cth)]. In my view, in construing the grounds of opposition under the present Act it is not an element in the objection on the ground of lack of novelty that whilst there was no anticipation in the necessary sense, nevertheless the difference in the two is to be disregarded because to come from the alleged anticipation to the alleged invention would not have involved the exercise of inventive ingenuity in the light of common general knowledge. It follows that I agree with the approach taken by Justice King to this issue.

The approach adopted by Justice King in the Supreme Court of Victoria in *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* (1987) 8 IPR 339 as the trial judge preceding the Full Federal Court decision in *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* was to accept that the line of earlier High Court cases meant that an alleged anticipation was not avoided by differences that might be characterized as “a mere mechanical equivalent or a mere workshop variant” (at 347).⁸⁹ For both Justices Lockhart and Gummow in the Full Federal Court the question was whether the additional integer not disclosed in the prior patent specification was more than a workshop improvement or mechanical variation (at 533 (Lockhart J) and 536 (Gummow J)). Justice Lockhart, with whom Justice Gummow and so Justice Jenkinson agreed (at 550 (Gummow J) and 535 (Jenkinson J)), concluded that “[i]n my opinion the evidence does not prove that the Bailey patent quite obviously possessed no inventive merit whatever. The essential difference between the disclosures in the Greenman and Bailey specifications discloses some inventive step; something more than a mere workshop variation or mechanical equivalent” (at 534). In other words, a challenge of want of “novelty” may be supported by asserting (with relevant evidence) that the invention is merely a workshop variation or mechanical equivalent disclosing an insufficient inventive step,⁹⁰ and recognizing that under the *Patents Act 1952* (Cth) an ISLE remained in the determination of “novelty”.⁹¹

⁸⁷ See, for examples, *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* (1989) 13 IPR 513 at 530-531 (Lockhart J, with whom Gummow and Jenkinson JJ agreed); *Dennison Manufacturing Co v Monarch Marking Systems Inc* (1983) 66 ALR 265 at 285 (Franki and Fox JJ; Smithers J dissenting); *WR Grace & Co v Asahi Kasei Kogyo Kabushiki Kaisha* (1993) 25 IPR 481 at 497-498 (Northrop, Lockhart and Cooper JJ).

⁸⁸ Justice Lockhart later suggests “a mere workshop improvement” is such a circumstance (at 532).

⁸⁹ See also *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* (1989) 13 IPR 513 at 542 (Gummow J). Notably this terminology of “workshop improvements” arose in *Dennison Manufacturing Co v Monarch Marking Systems Inc* (1983) 66 ALR 265 at 274 (Fox J) citing *Griffin v Isaacs* (1938) 12 *Official Journal of Patents Trade Marks and Designs* 739 at 740 (Dixon J) as support for the proposition.

⁹⁰ See, for example, *Nicar Holdings Pty Ltd v Martin Engineering Co* (1990) 16 IPR 545 (Lockhart, Jenkinson and Gummow JJ). As to what might constitute a workshop variation or mechanical equivalent, see, for examples, *Non-Drip Measure Co Ltd v Strangers Ltd* [1943] 60 RPC 135 at 142 (Russell of Killowen LJ); *Cincinnati Grinders (Inc) v BSA Tools Ltd* [1931] 48 RPC 33 at 75 (Lawrence LJ); *Samuel Parkes & Co Ltd v Cocker Bros Ltd* [1929] 46 RPC 241 at 252 (Hanworth MR).

⁹¹ In contrast to this conclusion, some commentators have speculated that *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* might have succeeded in removing an assessment of “inventive ingenuity” from the “novelty” assessment. See, for example, Padbury M, “Inventiveness Apart from Novelty and Inventive Step –

A review of the Australian patent scheme in 1984 taking into account a “predominantly economic perspective” recommended that the threshold for patentability remain the expression “manner of new manufacture”⁹² and that the prior art base be expanded.⁹³ The review did not address the form and content of the “obviousness” requirement or consider whether the ISLEs should remain in the “novelty” and “invention” inquiries. The *Patents Act 1952* (Cth) was subsequently repealed and replaced by the *Patents Act 1990* (Cth) that adopted the term “inventive step” in place of obviousness. The *Patents Act 1990* (Cth) also standardized the patent requirements across examination, opposition and revocation that was a significant change from the *Patents Act 1903* (Cth) and *Patents Act 1952* (Cth), even though the content of these requirements is not necessarily the same at each challenge.⁹⁴

4. The *Patents Act 1990* (Cth)

Under the *Patents Act 1990* (Cth) the Commissioner can refuse to accept “a patent request and complete specification” that does not address an “invention”, is not “novel” and does not involve an “inventive step”,⁹⁵ with an appeal open through the courts.⁹⁶ Following acceptance, opposition and revocation proceedings are available,⁹⁷ including the grounds “that the invention is not a patentable invention” and this will include that there is no “invention”, it is not “novel” and it does not involve an “inventive step”,⁹⁸ again with an appeal open through the courts.⁹⁹ The substance of the “inventive step” requirement is the same on examination, opposition and revocation,¹⁰⁰ except that on examination the “prior art base” does not to include information made publicly available only through the doing of an act.¹⁰¹ While a robust threshold requirement has arguably developed for the “inventive step” requirement,¹⁰² ISLEs remain to some extent in both the “novelty” and “invention” inquiries.

The High Court’s Decisions on Manner of Manufacture in *Philips and Mirabella*” (1998) 9 *Australian Intellectual Property Journal* 161 at 164.

⁹² Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (AGPS, 1984) p 41.

⁹³ Industrial Property Advisory Committee, n 92, p 46.

⁹⁴ For example, on examination, the Commissioner constructs a problem/solution approach that might not be accepted by a court. See IP Australia, *Patent Manual of Practice and Procedures* (IP Australia, 2007) [2.5.1.6].

⁹⁵ *Patents Act 1990* (Cth), s 49(1).

⁹⁶ *Patents Act 1990* (Cth), s 51. With subsequent appeals available to the Full Federal Court and High Court (s 158).

⁹⁷ *Patents Act 1990* (Cth), ss 59 (opposition) and 138 (revocation).

⁹⁸ *Patents Act 1990* (Cth), ss 59(b) (opposition) and 138(3)(b) (revocation).

⁹⁹ *Patents Act 1990* (Cth), s 154(1). With subsequent appeals available to the Full Federal Court and High Court (s 158).

¹⁰⁰ See *Patents Act 1990* (Cth), ss 45(1)(c)(ii) (examination), 59(b) (opposition) and 138(3)(b) (revocation).

¹⁰¹ *Patents Act 1990* (Cth), ss 45(1A). Further, the potential for the examination (and re-examination) to challenge the content of the prior art base is limited by the ability to receive relevant evidence. See *Emperor Sports Pty Ltd v Commissioner Of Patents* (2005) 66 IPR 46 at 64-66 (Lindgren J).

¹⁰² The High Court majority in *Aktiebolaget Hässle v Alphapharm Pty Limited* (2003) 212 CLR 411 at 434 (Gleeson CJ, Gaudron, Gummow and Hayne JJ) advocated, albeit under the *Patents Act 1952* (Cth), a threshold of whether the inventor would have been led directly as a matter of course to pursue one avenue in the expectation that it might well produce the claimed invention that appears to have been favorably adopted by the Federal Court under the *Patents Act 1990* (Cth). See, for examples, *JMVB Enterprises Pty Ltd v Camoflag Pty Ltd* (2006) 70 IPR 77 at 81 (Emmett, Stone and Bennett JJ); *NSI Dental Pty Ltd v University of Melbourne* (2006) 69 IPR 542 at 569-570 (Tamberlin J); *Commissioner of Patents v Emperor Sports Pty Ltd* (2006) 67 IPR 488 at 490 (Heerey, Kiefel and Bennett JJ); *Pfizer Overseas Pharmaceuticals v Eli Lilly and Co* (2005) 68 IPR 1 at 60-61 (French and Lindgren JJ) and 83 (Crennan J); *Fresenius Medical Care Australia Pty Ltd v Gambro Pty Ltd* (2005) 67 IPR 230 at 253-257 (Wilcox, Branson and Bennett JJ); *Nutrasweet Australia Pty Ltd v Ajinomoto Co Inc* (2005) 67 IPR 381 at 392-394 (Finkelstein J). Although this favorable adoption has not been universal. See, for examples, *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd* (2005) 68 IPR 459 at 499 (Heerey, Sundberg, Bennett JJ); *Neurizon Pty Ltd v LTH Consulting and Marketing Services Pty Ltd* (2004) 58 IPR 93 at 135-136 (Dowsett J).

4.1 “Novelty”

There is some clear High Court authority for the proposition that the conception of “novelty” under the *Patents Act 1952* (Cth)¹⁰³ was a statutory formulation of the common law conception of “novelty” and had retained an ISLE.¹⁰⁴ How much of that common law carried into the “novelty” threshold under the *Patents Act 1990* (Cth) is unclear, although the Full Federal Court has certainly accepted that some element remains.¹⁰⁵ The High Court has not addressed this issue under the *Patents Act 1990* (Cth), although the weight of Full Federal Court authority suggests that where the invention is merely a mechanical equivalent (or a workshop variation),¹⁰⁶ then “novelty” will not be satisfied.¹⁰⁷ Perhaps significantly, the Federal Court has tried to clarify that the necessary element of mechanical equivalence in assessing “novelty” should avoid a “coalescence between considerations of novelty and obviousness”.¹⁰⁸ As a consequence the threshold of a mechanical equivalent (or a workshop variation) remains uncertain, albeit still a real ISLE.

4.2 “Invention”

One remaining question is the fate and consequence of the element of “new” in “manner of new manufacture”. Under the *Patents Act 1990* (Cth) the threshold criteria for examination is that “the invention, so far as claimed” is “a manner of manufacture within the meaning of s 6 of the *Statute of Monopolies*”,¹⁰⁹ and for opposition and revocation “that the invention is not a patentable invention” that includes that it be “a manner of manufacture within the meaning of s 6 of the *Statute of Monopolies*”.¹¹⁰ In contrast, the term “invention” is defined to mean “any manner of *new* manufacture the subject of letters patent and grant of privilege within s 6 of the *Statute of Monopolies*, and includes an alleged invention” (emphasis added).¹¹¹ Based on this drafting it was unclear what significance the “new” in “manner of new manufacture” had, and how the authority, such as *Commissioner of Patents v Microcell Ltd* and *National Research Development Corporation v Commissioner of Patents*,¹¹² in support of the proposition that a mere new use of a known product was not patentable might be applied under the *Patents Act 1990* (Cth). In *Advanced Building Systems Pty Limited v Ramset Fasteners (Aust) Pty Limited* (1998) 194 CLR 171 a majority of the High Court, comprising Chief Justice Brennan and Justices Gaudron, McHugh and Gummow (and Justice Kirby dissenting), had decided that the construction of the *Patents Act 1952* (Cth) revocation provision dealt “specifically and exhaustively” with every aspect of “novelty” and “obviousness” leaving no avenue for any conceptions of “inventive merit” or “appreciable merit” within the meaning of “manner of new manufacture” (at 190). However, that case was distinguished from the earlier decision in *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1995) 183 CLR 655 under the *Patents Act 1990* (Cth) revocation provisions on the basis that the construction of the *Patents Act 1952* (Cth) was

¹⁰³ See *Patents Act 1952* (Cth), s 100(g).

¹⁰⁴ See, for examples, *Sunbeam Corp v Morphy-Richards (Australia) Pty Ltd* (1961) 180 CLR 98 at 112 (Windeyer J); *Rose Holdings Pty Ltd v Carlton Shuttlecocks Ltd* (1957) 98 CLR 444 at 450 (Williams J); *HPM Industries Pty Ltd v Gerard Industries Ltd* (1957) 98 CLR 424 at 437 (Williams J).

¹⁰⁵ See, for example, *Nicaro Holdings Pty Ltd v Martin Engineering Co* (1990) 16 IPR 545 (Lockhart, Jenkinson and Gummow JJ). See also *Prestige Group (Aust) Pty Ltd v Dart Industries Inc* (1990) 19 IPR 275 at 286-289 (Gummow J).

¹⁰⁶ Although the language of “a workshop variation” is probably more properly used in cases of obviousness: *Nicaro Holdings Pty Ltd v Martin Engineering Co* (1990) 16 IPR 545 at 549 (Lockhart J).

¹⁰⁷ See, for examples, *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* (1989) 13 IPR 513 at 533 (Lockhart J) and 536 (Gummow J); *Nicaro Holdings Pty Ltd v Martin Engineering Co* (1990) 16 IPR 545 (Lockhart, Jenkinson and Gummow JJ). For a contrary view see Padbury, n 91 at 164.

¹⁰⁸ See, for examples, *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* (1999) 44 IPR 481 at 493 (Burchett, Sackville and Lehane JJ); *Aktiebolaget Hässle v Alphapharm Pty Ltd* (1999) 44 IPR 593 at 631 (Lehane J).

¹⁰⁹ *Patents Act 1990* (Cth), ss 18(1)(a) and ss 45(1)(b).

¹¹⁰ *Patents Act 1990* (Cth), ss 59(b) (opposition) and 138(3)(b) (revocation). Noting that the term “patentable invention” means “an invention of the kind mentioned in s 18”: *Patents Act 1990* (Cth), sch 1.

¹¹¹ *Patents Act 1990* (Cth), sch 1.

¹¹² See also *Henry Berry & Co Pty Ltd v Potter* (1924) 35 CLR 132 at 138-140 (Isaacs ACJ and Gavan Duffy J) and 141-142 (Starke J).

importantly different, and that the lack of an inventive step did not appear on the face of the specification (at 191-192).¹¹³

In *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* the High Court, comprising Justices Brennan, Deane and Toohey (Justices Dawson and McHugh dissenting), considered an infringement and a cross-claim for revocation about whether an alleged new use of long life compact fluorescent lamps was a known product that did not satisfy the threshold of a “manner of manufacture” (at 659 (Brennan, Deane and Toohey JJ) and 668-669 (Dawson and McHugh JJ)). While this was a patent claim made under the *Patents Act 1952* (Cth), the *Patents Act 1990* (Cth) transition provisions applied so that the grounds of revocation that needed to be satisfied were those under the *Patents Act 1990* (Cth) that retained the element set out in the *Patents Act 1952* (Cth).¹¹⁴ The trial judge and Full Federal Court majority held the claims were not an invention or a manner of new manufacture because on the face of the specification they were merely a use of known materials to manufacture known articles for which the materials were known to be suitable (analogous use).¹¹⁵ Notably the claims were found to be novel by the trial judge and a lack of an inventive step had been abandoned at trial,¹¹⁶ so the only question for the High Court was whether the analogous use cases continued to apply as a ground within the revocation wording of the *Patents Act 1990* (Cth) that “the invention is not a *patentable invention*” (emphasis added) (at 659 (Brennan, Deane and Toohey JJ) and 668-669 (Dawson and McHugh JJ)).

The High Court majority rejected the contention that every aspect of the quality of inventiveness was confined to the formal consideration of the separate grounds of “novelty” and “obviousness” (at 663). Their favored construction was that the opening words (“... a patentable invention is an invention that ...”)¹¹⁷ imposed a threshold requirement that needed to be satisfied before the other elements were addressed, including “a manner of manufacture within the meaning of s 6 of the *Statute of Monopolies*”, “novelty” and “inventive step” (at 663). That is, in determining whether there was an “invention” there was a requirement to assess whether it was a “manner of new manufacture”, and this followed the position reflected in *Commissioner of Patents v Microcell Ltd* and *National Research Development Corporation v Commissioner of Patents* (at 663-664). The outcome for the majority was to find that the conclusions of the trial judge and majority of the Full Federal Court were that the evidence established that the threshold requirement of “an invention” was not satisfied and this was sufficient to revoke the patent on the ground that the alleged invention was not a “patentable invention”: “[i]f it is apparent on the face of the specification that the quality of inventiveness necessary for there to be a proper subject of letters patent under the *Statute of Monopolies* is absent, one need go no further” (at 666).¹¹⁸ As this was not challenged before the High Court this appeal could only be dismissed (at 664).

¹¹³ Notably the *Patents Act 1990* (Cth), s 138(3) does not distinguish between the different grounds of “invention”/“patentable invention”, “novelty” and “inventive step” in the same way as the *Patents Act 1952* (Cth), ss 100(1) and 100(2).

¹¹⁴ See *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1992) 24 IPR 1 at 4-5 (Wilcox J); *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1993) 26 IPR 513 at 524-528 (Lockhart J, with whom Northrop J agreed).

¹¹⁵ See *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1992) 24 IPR 1 at 36 (Wilcox J); *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1993) 26 IPR 513 at 539 (Lockhart J, with whom Northrop J agreed).

¹¹⁶ See *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1995) 183 CLR 655 at 668-669 (Dawson and McHugh JJ). See also *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1992) 24 IPR 1 at 2 and 36-40 (Wilcox J).

¹¹⁷ The words “a patentable invention is an invention that” were omitted and replaced with the words “an invention is a patentable invention for the purposes of a standard patent if the invention” by the *Patents Amendment (Innovation Patents) Act 2000* (Cth), s 3 and sch 1 (item 6) (commencing on 24 May 2001).

¹¹⁸ Notably, what materials and information might contribute to understanding the specification (to establish “known”) remains uncertain. See, for example, Lawson C, “Patenting Genes and Gene Sequences and Competition: Patenting at the Expense of Competition” (2002) 30 *Federal Law Review* 97 at 107.

The minority, however, considered that the omission of “new” in “manner of manufacture” was to signify that a “patentable invention” was to “exhibit certain qualities” of “novelty” and “inventive step” (non-obviousness) and that the analogous use authority was adequately addressed there (at 670). In other words, the authority, such as *Commissioner of Patents v Microcell Ltd* and *National Research Development Corporation v Commissioner of Patents*, in support of the proposition that a mere new use of a known product was not patentable, was properly addressed under the heads of “novelty” and “inventive step”.

However, the High Court majority in *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* observed, after setting out their conclusion that the matter be dismissed,¹¹⁹ that in respect of the terms “manner of manufacture” (at 667):

It is true that ... the [*National Research Development Corporation v Commissioner of Patents*] was decided under the [*Patents Act 1952* (Cth)]. Nonetheless, it is to be assumed that it was the legislative intent that the phrase “manner of manufacture” in s 18(1)(a) should be construed in accordance with earlier judicial decisions about its content as used in the saving clause of s 6 of the *Statute of Monopolies*.

The majorities’ observation was, therefore, that the trial judge and Full Federal Court majority were correct in their finding that the patent claim was no more than a new use of a particular known product was that it was not a “manner of manufacture” (at 668).¹²⁰ This suggests that the phrase “manner of manufacture” in the revocation (and opposition) grounds of “a manner of manufacture within the meaning of s 6 of the *Statute of Monopolies*” may arguable also include the ISLEs from the analogous use cases such as *Commissioner of Patents v Microcell Ltd* and *National Research Development Corporation v Commissioner of Patents*. The significance of this observation remains uncertain albeit subject to considerable criticism.¹²¹ Perhaps its significance is not great as it is likely only to be determinative where “novelty” and “inventive step” have not been in issue.¹²² However, High Court authority clearly establish that “nothing but a claim for a new use of an old substance”¹²³ is still a relevant threshold inquiry¹²⁴ and entails an element of an “inventive idea”¹²⁵ determined on the face of the specification. Perhaps significantly, the *Australia – United States Free Trade Agreement* [2005] ATS 1, Art 17.9(1) expressly required that “[t]he Parties confirm that patents shall be available for any new uses or methods of using a known product”. The effect of this agreement is presently uncertain, although the presence of the ISLE does not appear to have been affected by the agreement so far suggesting that the provision does not affect the existing law.¹²⁶

¹¹⁹ Stating: “[s]trictly speaking, it is unnecessary to answer the question whether a process which could not be a proper subject matter for a patent according to traditional principle, for the reason that it is merely a new use of a known product, can nonetheless be a ‘manner of manufacture within the meaning of s 6 of the *Statute of Monopolies*’ for the purposes of s 18(1)(a)” (at 666-667).

¹²⁰ See also *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1992) 24 IPR 1 at 36 (Wilcox J); *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1993) 26 IPR 513 at 539 (Lockhart J, with whom Northrop J agreed).

¹²¹ See, for example, Brennan D and Christie A, “Patent Claims for Analogous Use and the Threshold Requirement of Inventiveness” (1997) 25 *Federal Law Review* 237 at 248-262.

¹²² See, for examples, *Merck and Co Inc v Arrow Pharmaceuticals Ltd* (2006) 68 IPR 511 at 516-532 (Heerey, Kiefel and Dowsett JJ); *Grant v Commissioner of Patents* (2006) 69 IPR 221 at 229-230 (Heerey, Kiefel and Bennett JJ).

¹²³ *National Research Development Corporation v Commissioner of Patents* (1959) 102 CLR 252 at 260-261 (Dixon CJ, Kitto and Windeyer JJ) citing *Re BA’s Application* [1915] 32 RPC 348 at 349 (Buckmaster LJ).

¹²⁴ *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1995) 183 CLR 655 at 664 (Brennan, Deane and Toohey JJ). See also *Merck and Co Inc v Arrow Pharmaceuticals Ltd* (2006) 68 IPR 511 at 529 (Heerey, Kiefel and Dowsett JJ); *Grant v Commissioner of Patents* (2006) 69 IPR 221 at 222 (Heerey, Kiefel and Bennett JJ).

¹²⁵ The term used in *Commissioner of Patents v Microcell Ltd* (1959) 102 CLR 233 at 250 (Dixon CJ, McTiernan, Fullagar, Taylor and Windeyer JJ).

¹²⁶ See, for example, *Grant v Commissioner of Patents* (2006) 69 IPR 221 at 229-230 (Heerey, Kiefel and Bennett JJ). This was certainly the stated position of the Australian Government. See Chesmond R, “Patent

5. Conclusions

As the analysis in this article shows, the role of ISLEs have diminished over time. In the “invention” inquiry under the *Patents Act 1990* (Cth) ISLEs may only have a significant effect where “novelty” and “inventive step” are not in issue.¹²⁷ Meanwhile the issue might only arise in the “novelty” inquiry where the invention is argued to be a mechanical equivalent (or a workshop variation).¹²⁸ However, these ISLEs remain introducing further complexity to both the “invention” and “novelty” inquiries, and address conceptions of inventiveness that might, at least arguably, be better dealt with solely through the “inventive step” inquiry.

While vestiges of “inventive step” may be desirable in allowing judges to craft decisions that exclude inappropriate patents, there are costs in terms of regulation quality and performance by creating barriers to trade and commerce, impeding innovation and increasing business costs (including “red tape”) and consumer prices.¹²⁹ This is significant as the *Patents Act 1990* (Cth) should be drafted in a way that is “efficient” in terms of “minimizing compliance and other costs imposed on the community” and “effective” in “addressing an identified problem”.¹³⁰ And, if inappropriate patents are to be excluded then the reasons for exclusion should be clearly stated and not disguised through uncertain interpretations of threshold standards.¹³¹ Arguably ISLEs do impose additional financial and “red tape” costs by creating uncertainty in the thresholds necessary for patentability. This is significant both from the perspective of the patent holder obtaining and having confidence in their patent grant, and competitors avoiding infringement of granted patents.

Two cases provide an illustration of the likely problems. First, the High Court decision in *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1995) 183 CLR 655 where the mere new use of known materials to manufacture long life compact fluorescent lamps for which the materials were known to be suitable would have been patentable unless an ISLE had been found because the “inventive step” ground had been abandoned at trial (at 668-669).¹³² The “inventive step” argument appears to have been abandoned because a key piece of prior art could not be shown to be part of the common general knowledge in Australia.¹³³ The effect of the decision was that the particular fluorescent lamps were unpatentable, and that may have been a desirable outcome in the circumstances. The cause of the concern, however, should have been to focus on the scope of the

Evergreening in Australia after the Australia-US Free Trade Agreement: Floodgates or Fallacy?” (2006) 9 *Flinders Journal of Law Reform* 51 at 51-53 (and the references therein).

¹²⁷ See *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1995) 183 CLR 655 at 668-669 (Dawson and McHugh JJ); *Merck and Co Inc v Arrow Pharmaceuticals Ltd* (2006) 68 IPR 511 at 516-532 (Heerey, Kiefel and Dowsett JJ); *Grant v Commissioner of Patents* (2006) 69 IPR 221 at 229-230 (Heerey, Kiefel and Bennett JJ). See also Lawson, n 118 at 108. Although this is certainly not always the case. See, for examples, *Bristol-Myers Squibb Co v FH Faulding & Co Ltd* (2000) 46 IPR 553 at 569 (Black CJ and Lehane J); *Arrow Pharmaceuticals Limited v Merck & Co Inc* (2004) 63 IPR 85 at 114 (Giles J).

¹²⁸ See, for example, *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* (1999) 44 IPR 481 at 493 (Burchett, Sackville and Lehane JJ).

¹²⁹ See, for example, Productivity Commission, *Regulation and Its Review 2004-2005*, Annual Report Series (Productivity Commission, 2005) p 1.

¹³⁰ Productivity Commission, *Regulation and Its Review 2002-2003*, Annual Report Series (Productivity Commission, 2003) p 1.

¹³¹ For example, a re-invigorated “generally inconvenient” (from s 6 of the *Statute of Monopolies*) or clearly stated “public interest” exception might be appropriate to exclude inappropriate patents. See, for examples, Monotti, A, “The Scope of ‘Manner of Manufacture’ under the *Patents Act 1990* (Cth) after *Grant v Commissioner of Patents*” (2006) 34 *Federal Law Review* 461; Lawson C, “Grant’s Application: It’s Time for a New Approach to a ‘Public Interest’ Exclusion from Patentability” (2005) 13 *Journal of Law and Medicine* 135.

¹³² See also *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1992) 24 IPR 1 at 2 and 36-40 (Wilcox J).

¹³³ See *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (1993) 26 IPR 513 at 539 (Lockhart J).

relevant common general knowledge in assessing “inventive step”.¹³⁴ Instead, the result of the decision was to introduce an additional element of uncertainty into *all* patent threshold inquiries,¹³⁵ opening up further cost and complexity in seeking a patent, having confidence that a patent grant remains valid, and competing against a patent holder while avoiding infringement.

Secondly, the Full Federal Court decision in *Grant v Commissioner of Patents* (2006) 69 IPR 221 found a method for structuring a financial transaction so as to protect an individual’s assets from a loss of ownership as a result of a legal liability was unpatentable, in part, because a trust, gift, loan and security were known products that were already known to be used to create a structure of financial rights and obligations or even a change in the person’s legal circumstances.¹³⁶ Before the Deputy Commissioner the threshold criteria of “novelty”¹³⁷ and “innovative step”¹³⁸ were not in issue.¹³⁹ While other grounds supporting the same consequences were also made,¹⁴⁰ the effect of the decision was to introduce further uncertainty into the thresholds of “invention” for innovation patents. As the innovation patent scheme was intended to have a lower threshold than the standard patent’s “inventive step”,¹⁴¹ an additional requirement of inventiveness raises difficult questions about the quality of inventiveness on the face of the innovation patent specification, and how this is different to that required for a standard patent. Perhaps importantly, the (obvious) new use of a known product taking advantage of its known properties seems to be exactly the kinds of second tier inventions the innovation patent scheme was intended to address.¹⁴² Again, the decision introduced an additional element of uncertainty into the patent threshold inquiries, opening up further grounds for both seeking a patent and having confidence in a patent grant, and that the patent remains valid either as a concerned patent holder or a competitor avoiding infringement.

Unfortunately, the authority curtailing the ISLEs in the “novelty” inquiry under the *Patents Act 1990* (Cth) may not be decisive. The High Court has not specifically addressed the issue under the *Patents*

¹³⁴ Notably this has been addressed, to some extent, in amendment of the *Patents Act 1990* (Cth) by the *Patents Amendment Act 2001* (Cth) that implemented the recommendations of the Intellectual Property and Competition Review Committee that the prior art base be expanded to include “all information, including acts and common general knowledge, anywhere in the world which a person skilled in the art could have reasonably expected to find, understand and regard as relevant” and mosaic-ing the prior art where it “would be obvious to the person skilled in the art”: Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (IP Australia, 2000) p 156; *Patents Amendment Act 2001* (Cth), s 3 and sch 1 (item 4).

¹³⁵ Further, the application of the resulting principle is also problematic, especially in determining what is “known”. For example, contrast the different conclusions in the Full Federal Court in *Bristol-Myers Squibb Co v FH Faulding & Co Ltd* (2000) 46 IPR 553 at 564-565 (Black CJ and Lehane J) and 600 (Finkelstein J) and *Arrow Pharmaceuticals Limited v Merck & Co Inc* (2004) 63 IPR 85 at 114 (Giles J) finding a claim to a dosage regime of a known chemical compound (Taxol and Alendronate respectively) for a known therapeutic use based upon known properties and involving no new method of administration was patentable and unpatentable respectively. Notably the latter decision relied on the distinction that in *Bristol-Myers Squibb Co v FH Faulding & Co Ltd* that “Taxol was a naturally occurring substance with known beneficial properties which could not be utilized without the invention” (at 585), albeit that the Full Federal Court had warned that courts “should be careful to avoid assuming a technical expertise it does not have” (at 569).

¹³⁶ *Grant v Commissioner of Patents* (2006) 69 IPR 221 at 229-230 (Heerey, Kiefel and Bennett JJ).

¹³⁷ *Patents Act 1990* (Cth), s 18(1A)(b)(i); the equivalent requirement for a “standard patent”: s 18(1)(b)(i).

¹³⁸ *Patents Act 1990* (Cth), s 18(1A)(b)(ii); the equivalent requirement for a “standard patent” is “inventive step”: s 18(1)(b)(ii).

¹³⁹ See *Grant’s Application* [2004] APO 11 (26 May 2004) at [10]-[15].

¹⁴⁰ The Full Federal Court that “[l]egal advices, schemes, arguments and the like are not a manner of manufacture” because they do not have the requisite “industrial or commercial or trading character” even though they might be “an area of economic importance (like the fine arts)”: *Grant v Commissioner of Patents* (2006) 69 IPR 221 at 229 (Heerey, Kiefel and Bennett JJ).

¹⁴¹ See Commonwealth, *House of Representatives Hansard*, 29 June 2000, p 18584 (Parliamentary Secretary to the Minister for Industry, Science and Resources).

¹⁴² See Advisory Council on Industrial Property, *Review of the Petty Patent System* (Australian Industrial Property Organization, 1995) pp 29-32.

Act 1990 (Cth) but might be persuaded by the earlier decisions under the *Patents Act 1952* (Cth), such as *Sunbeam Corp v Morphy-Richards (Australia) Pty Ltd* (1961) 180 CLR 98 and *Rose Holdings Pty Ltd v Carlton Shuttlecocks Ltd* (1957) 98 CLR 444. These cases are authority for the proposition that the *Patents Act 1952* (Cth) conception of “novelty”¹⁴³ was an unaltered representation of the common law conception of “novelty”.¹⁴⁴ As the decisions under the *Patents Act 1903* (Cth) show, this involves some conception of a necessary “inventive act”.¹⁴⁵ It seems possible that High Court might be persuaded that the conception of “novelty” under the *Patents Act 1990* (Cth) has maintained those common law origins, and that they are significantly broader than just requiring something more than a mechanical equivalent (or a workshop variation).¹⁴⁶ Until the High Court makes such a ruling the place and significance of ISLEs in “novelty” remains an uncertainty with costs in terms of compliance costs and complexity for patent applicants and holders, and competitors avoiding infringement.

In conclusion, while the decisions of the High Court and Federal Court under the *Patents Act 1990* (Cth) have gone a long way to clarify and simplify the threshold requirements for patentability, ISLEs remain and add uncertainty to those applying for patents, those holding granted patents and those competing against existing patent holders. Clarifying and simplifying the standards by clearly separating “inventive step” from “invention” and “novelty” should remove unnecessary (being both inefficient and ineffective) uncertainty. Useful guidance about how this might be achieved through amendment of the *Patents Act 1990* (Cth) has been provided by the High Court majority in *Advanced Building Systems Pty Limited v Ramset Fasteners (Aust) Pty Limited* (1998) 194 CLR 171 distinguishing the construction of the revocation provisions in the *Patents Act 1990* (Cth) and the *Patents Act 1952* (Cth) (at 188-191). As a consequence of the form of the drafting of the *Patents Act 1952* (Cth) the majority decided that the revocation provision dealt “specifically and exhaustively” with every aspect of “novelty” and “obviousness” leaving no avenue for any conceptions of ISLEs within the meaning of “invention”/“manner of new manufacture” (at 190). Such an amendment, together with a clear direction from the Parliament, may be all that is necessary so that in interpreting the *Patents Act 1990* (Cth) courts assign every element of the ISLEs to the “inventive step” inquiry.¹⁴⁷ Such a change is necessarily desirable so as to avoid the costs in terms of regulation quality and performance by creating barriers to trade and commerce, impeding innovation and increasing business costs (including “red tape”) and consumer prices.

¹⁴³ See *Patents Act 1952* (Cth), s 100(g).

¹⁴⁴ See *Sunbeam Corp v Morphy-Richards (Australia) Pty Ltd* (1961) 180 CLR 98 at 112 (Windeyer J); *Rose Holdings Pty Ltd v Carlton Shuttlecocks Ltd* (1957) 98 CLR 444 at 450 (Williams J). See also *HPM Industries Pty Ltd v Gerard Industries Ltd* (1957) 98 CLR 424 at 437 (Williams J).

¹⁴⁵ See, for example, *Gum v Stevens* (1923) 33 CLR 267 at 270 (Isaacs J) and 272 (Starke J) citing *British United Shoe Machinery Co v Fussell & Sons Ltd* [1908] 25 RPC 631 at 651 (Fletcher Moulton LJ).

¹⁴⁶ Perhaps importantly, while Justice Gummow in the Full Federal Court decision in *RD Werner & Co Inc v Bailey Aluminum Products Pty Ltd* (1989) 13 IPR 513 at 549 concluded that the *Patents Act 1952* (Cth) avoided these “difficulties” by distinguishing between “novelty” and “obviousness”, he then agreed with Justice Lockhart who had concluded that “[i]n my opinion the evidence does not prove that the Bailey patent quite obviously possessed no inventive merit whatever. The essential difference between the disclosures in the Greenman and Bailey specifications discloses some inventive step; something more than a mere workshop variation or mechanical equivalent” (at 534).

¹⁴⁷ Such an opportunity perhaps arose in May 2001 when the words “an invention is a patentable invention for the purposes of a standard patent if the invention” replaced the words “a patentable invention is an invention that” in *Patents Act 1990* (Cth), s 18(1). See *Patents Amendment (Innovation Patents) Act 2000* (Cth), s 3 and sch 1 (item 6).