



15 August 2019

Senate Standing Committees on Economics
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Submission on *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2019*

Cochlear and ResMed welcome the opportunity to make a submission on the above Bill. This submission focuses on Part 2 of Schedule 1 of the Bill given ResMed and Cochlear's specific interest in abolishing the innovation patent system.

1. SUMMARY

- We support the Government's decision to implement the Productivity Commission's recommendation to abolish the innovation patent system
- We recommend amendment of the Bill to prohibit continued filing and examination of innovation patents on or after commencement.
 - We support the objective of abolishing innovation patents while not unfairly affecting existing rights.
 - However, we believe the Bill does more than merely preserve existing rights as it still permits the filing of divisional applications based on parent applications filed before the commencement of the provisions.
 - This unreasonably maintains legal uncertainty over innovation patent rights for a sustained period (up to eight years)
- We also recommend amendment of the Bill to provide for revocation of innovation patents that do not meet the 'date of patent' and priority date test.
 - This is to address the risk of creating a situation where an innovation patent that was improperly granted and certified after the commencement date (because it was not properly entitled to a priority date before commencement) could nonetheless survive a revocation action because there was no legislative power to revoke the patent on this basis.

For further information or to discuss this submission, please contact:

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2. Introduction and background

ResMed is a global leader in the development, manufacturing, distribution and marketing of medical devices and cloud-based software applications that diagnose, treat and manage respiratory disorders including sleep disordered breathing (SDB), chronic obstructive pulmonary disease (COPD), neuromuscular disease and other chronic diseases. ResMed employs over 7,200 people and sells product in over 120 countries through a combination of wholly owned subsidiaries and independent distributors. In the financial year ending 30 June 2019, ResMed had a net revenue of \$US2,606 million, and a gross profit of \$US1,536 million. As of 30 June 2019, ResMed had approximately 1,200 employees in Australia.

Sydney is one of the main manufacturing locations for ResMed. ResMed's primary research and development facilities are in Sydney, where ResMed owns a 224,000 ft² manufacturing, engineering, research and development site. In fiscal year 2019, ResMed invested \$US180.6 million in research and development.

Cochlear is the global leader in implantable hearing solutions including cochlear implants and acoustic implants. As of August 2019, Cochlear has sold over 550,000 implants helping a growing number of people of all ages across more than 100 countries hear and be heard.

Cochlear is a proudly Australian, globally successful company with over 3,500 employees in over 35 countries. Headquartered at Macquarie University in Sydney, Cochlear undertakes most of its research and development (R&D) and manufacturing in Australia, mainly at its Macquarie University campus but also at Lane Cove, East Melbourne and in Brisbane. Around 1,600 of Cochlear's employees are based in Australia with the majority working in manufacturing, logistics and R&D.

Cochlear is the only implantable hearing device company that develops, designs and manufactures most of its products in Australia for a global market. While over 95% of its sales revenue is from outside Australia, in FY2107-18 Cochlear paid 83% of its corporate taxes *in* Australia. Last financial year Cochlear spent over \$100 million in Australian based R&D, paid over \$190 million in wages to Australian employees made over \$200 million in payments to domestic suppliers and paid \$84 million in corporate tax.

None of Cochlear's or ResMed's major competitors design or manufacture products in Australia. We have no reason to expect this to change within the next 8 years. As a result, any value the innovation patent system could provide to us is insignificant.

3. Impact of Innovation Patents on Australian Manufacturing and R&D

Many companies that do not design or manufacture products in Australia are aware of the innovation patent system. They own many Australian patents, including innovation patents, of which the majority are uncertified.

Under the approach taken in Part 2 of Schedule 1 of the Bill, these companies would be able to continue to strategically pursue innovation patents, particularly in the event of litigation. Where innovation patents are pursued as an adjunct to existing patent litigation, they usually arise as divisional applications from existing patent families and can be filed many years after the parent application.

Companies that do not design and manufacture products domestically were not the intended beneficiaries of the innovation patent system. The system was established with the objective of stimulating innovation in Australian SMEs.

However, innovation patents can be a disincentive to invest in Australian R&D and expand or maintain manufacturing in Australia because of the way they can be strategically used by competitors. The

disincentive to invest in Australia and potential enforcement of innovation patents against Australian manufacturers has a ripple effect of reducing Australia's tax base.

4. Comments on Part 2 of Schedule 1 of the Bill

Cochlear and ResMed support the general steps taken in Part 2 of Schedule 1 of the Bill to phase out the innovation patent. However, two aspects of the approach should be amended.

4.1 *The Bill would allow continued filing and examination of innovation patents after commencement*

The provisions of the Bill only prevent filing of new innovation patents where the effective date of the innovation patent is after the commencement date of the provisions. This still permits the filing of divisional applications based on parent applications filed before the commencement of the provisions.

Consequently, applicants could continue to file applications for innovation patents for a period of up to eight years after the commencement of the provisions. These applications could have claims of differing scope to their parent applications and would continue to be subject to the lower "innovative step" requirement.

Alternatively, applicants could file one or more innovation patent applications shortly before commencement and then later (after commencement) seek to amend the claims of these applications to suit their purposes, before requesting examination and certification of the innovation patent based upon the amended claim set.

The potential for these behaviours creates continued uncertainty regarding the scope and validity of patent rights. It also permits ongoing exploitation of the innovation patent system for strategic litigation purposes for a period of up to eight years after the commencement of the provisions.

4.2 *The Bill does not provide for revocation of innovation patents that do not meet the 'date of patent' and priority date tests*

As explained in paragraph 24 of the Explanatory Memorandum, the provisions of the Bill are intended to require that any innovation patent filed after the commencement date have both a 'date of patent' and a priority date for each claim that is before the commencement date.

However, the provisions only provide for these requirements to be confirmed during the formalities check and during examination respectively. Notably, nothing in the Bill nor the existing legislation would permit a party to challenge the validity of a certified innovation patent that was filed after the commencement date on the basis that it was not entitled to a priority date before the commencement date. None of sections 101G (which deals with re-examination), 101M (which deals with opposition) or 138 (which deals with revocation actions before the court) would permit consideration on this basis.

As a result, if an innovation patent is filed after the commencement of the provisions, and subsequently certified, there is no avenue to revoke that innovation patent for failing to meet the priority date test if its priority date is successfully challenged in later proceedings. It appears to be an unintended consequence that an innovation patent, improperly granted and certified after the commencement date (because it was not properly entitled to a priority date before commencement), could survive a revocation action because there was no legislative power to revoke the patent on this basis.

5. Proposed Alternatives

The Explanatory Memorandum to the Bill states that “abolishing the innovation patent system is not intended to affect existing rights”. While we support the principle of this objective, we believe the Bill does more than merely preserve existing rights, it still permits the filing of divisional applications based on parent applications filed before the commencement of the provisions. This unreasonably maintains legal uncertainty over innovation patent rights for a sustained period.

We propose two alternatives below:

5.1 ***Preferred proposal: No requests for examination of any innovation patents on or after commencement***

In Cochlear and ResMed's view, the period of one year between royal assent and commencement of the provisions provides ample time for prospective applicants to file and seek certification of any innovation patents before a subsequent cessation of filing and/or certification of any further innovation patents.

The Bill permits divisional filings based on existing pending patent applications and requests for examination of innovation patents after commencement. This approach ensures uncertainty about what innovation patents exist as well as the scope of uncertified innovation patents for up to eight years. The innovation patent system is being eliminated partly because of this uncertainty, which is exacerbated by the unreasonably low standard for inventiveness.

Our preferred proposal will address this uncertainty and concerns many parties have raised about strategic use of innovation patents during contentious matters. By requiring a request for examination (and therefore any new filings) before the commencement date, the existence and scope of all innovation patents will be known and defined shortly thereafter. As a result, corresponding risks will be better understood and can be addressed with less risk of disruption to domestic manufacturing.

5.2 ***Alternative proposal: No divisional innovation patent applications filed on or after commencement***

As an alternative, patentees could seek examination of existing applications, but not be permitted to file any new innovation patent applications after commencement.

The Draft Bill allows patentees of existing pending families to file divisional innovation patent applications for up to 8 years after the commencement date. Permitting such applications after commencement of the new legislation extends what is clearly a problematic and unfair system that has failed to meet its primary objective. More innovation patents after commencement will lead to more uncertainty about domestic manufacturing.

In particular, permitting divisional innovation patent applications after commencement will ensure continued strategic use of innovation patents during contentious matters. Our alternative proposal will address these issues and create more certainty by requiring all innovation patent applications to be filed prior to the commencement date.

5.3 ***Providing for revocation of patents that don't meet the 'date of patent' and priority date tests***

If the Bill continues to permit the filing and/or certification of innovation patents after commencement, there ought to be provision for revocation of innovation patents filed after

commencement that do not meet the priority date test. This could be achieved by amendment of sections 101G, 101M and 138 to set out that this is a ground on which an innovation patent can be revoked in re-examination, opposition and court proceedings respectively.

6. Conclusion

While we welcome the elimination of the innovation patent system, enabling post commencement examination and divisional filings as proposed in the Bill will extend uncertainty which has the real likelihood of negatively impacting manufacturing in Australia.