

Parliament of the Commonwealth of Australia

SENATE ECONOMICS LEGISLATION COMMITTEE

**CONSIDERATION OF LEGISLATION REFERRED TO
THE COMMITTEE**

PATENTS AMENDMENT BILL 2001

August 2001

© Commonwealth of Australia 2001

ISSN 1326-9321

Printed by the Senate Printing Unit, Parliament House, Canberra.

MEMBERS OF THE COMMITTEE

Core Members

Senator B Gibson (Chair)	(Tasmania, LP)
Senator S Murphy (Deputy Chair)	(Tasmania, ALP)
Senator G Campbell	(New South Wales, ALP)
Senator G Chapman	(South Australia, LP)
Senator A Murray	(Western Australia, AD)
Senator J Watson	(Tasmania, LP)

Substitute Members

Senator Allison to substitute for Senator Murray for matters relating to resources
Senator Ridgeway to substitute for Senator Murray for the Committee's inquiry into the Patents Amendment Bill 2001.

Participating Members

Senator E Abetz	(Tasmania, LP)
Senator R Boswell	(Queensland, NPA)
Senator G Brandis	(Queensland, LP)
Senator B Brown	(Tasmania, AG)
Senator P Calvert	(Tasmania, LP)
Senator S Conroy	(Victoria, ALP)
Senator the Hon P Cook	(Western Australia, ALP)
Senator H Coonan	(New South Wales, LP)
Senator W Crane	(Western Australia, LP)
Senator A Eggleston	(Western Australia, LP)
Senator J Faulkner	(New South Wales, ALP)
Senator A Ferguson	(South Australia, LP)
Senator J Ferris	(South Australia, LP)
Senator B Harradine	(Tasmania, Ind)
Senator L Harris	(Queensland PHON)
Senator S Knowles	(Western Australia, LP)
Senator R Lightfoot	(Western Australia, LP)
Senator K Lundy	(Australian Capital Territory, ALP)
Senator B Mason	(Queensland, LP)
Senator J McGauran	(Victoria, NPA)
Senator M Payne	(New South Wales, LP)
Senator A Ridgeway	(New South Wales, AD)
Senator C Schacht	(South Australia, ALP)
Senator N Sherry	(Tasmania, ALP)
Senator T Tchen	(Victoria, LP)
Senator J Tierney	(New South Wales, LP)

Secretariat

Peter Hallahan, Secretary
Alistair Sands, Principal Research Officer
Sarah Bachelard, Senior Research Officer
Angela Lancsar, Executive Assistant

SG.64

Parliament House
Canberra ACT 2600

Tel: 02 6277 3540

Fax: 02 6277 5719

E-mail: economics.sen@aph.gov.au

Internet: http://www.aph.gov.au/senate/committee/economics_ctte/index.htm

CONTENTS

The Committee	iii
Report	
• Reference of Bill to the Committee	1
• The Committee's Inquiry	1
• The Bill	1
• Background	2
• Issues in Evidence	2
• Expansion of prior art base	3
• Geographic scope	4
• Combining documents	5
• Searches for prior art	6
• Burden on applicants	7
• Unclear scope of searches	8
• Innovation patents	9
• Patent infringements and prior use defence	11
• Grace period	12
• Additional issue – US approach	14
• Recommendation	15
• Labor Senators Minority Report	17
• Australian Democrats – Dissenting Report	21
• Appendix 1 – List of Submissions	25

REPORT

Reference of Bill to the Committee

1.1 The Patents Amendment Bill 2001 was introduced into the House of Representatives on 24 May 2001. Following a report by the Selection of Bills Committee, the Senate referred the Bill to this Committee on 20 June 2001 for examination and report by 7 August 2001.

1.2 In particular, the Committee was asked to consider the intent, clarity and legal consequences of some of the proposed amendments.

The Committee's Inquiry

1.3 The Committee invited a number of interested parties to make submissions on the Bill, in addition to advertising the inquiry on the Parliament website. The Committee received six submissions, plus one supplementary, to the inquiry, details of which are provided at Appendix I.

The Bill

1.4 The main purpose of the Bill is to raise the threshold for obtaining a patent, in order to increase the likelihood that granted patents are valid and to align the novelty and inventive step requirements for Australian patents more closely with international standards.

1.5 The Bill amends the *Patents Act 1990* in three main ways.¹ First, it expands the prior art base against which an invention is compared in assessing whether it involves an inventive or innovative step. At present, the prior art base is defined as consisting of information in a document available anywhere in the world, but restricts information made available from performing an act and information which is common general knowledge to Australia only. The Bill expands the prior art base to remove the restriction that only common general knowledge and information made available from doing an act in Australia be considered relevant, on the grounds that such a restriction is artificial in 'this age of increasing globalisation'.²

1.6 The prior art base for assessing an inventive step will also be expanded, in line with practices in Europe and the United States, to allow different pieces of information to be combined. That is, whether something constitutes an inventive step is to be assessed not only against existing documents or other pieces of prior art, but against a combination of such documents where the combination would have been obvious to a person skilled in the art. The objective of the amendment is again to raise the inventive step threshold.

1.7 The second main amendment in the Bill replaces the requirement that a patent applicant be given the benefit of any doubt held by the Commissioner of Patents as to whether an invention is novel and involves an inventive or innovative step. Instead a more

1 Patents Amendment Bill 2001, Second Reading Speech, The Hon. Warren Entsch MP, p.1.

2 Patents Amendment Bill 2001, Second Reading Speech, The Hon. Warren Entsch MP, p.1.

stringent test similar to the ‘balance of probabilities’ test more generally used in civil law matters will apply.

1.8 Thirdly, the Bill requires that an applicant for a standard patent or an innovation patent provide the Commissioner with the results of any searches of the prior art base that have been made in relation to the application, or in any corresponding application filed overseas.

1.9 The Bill also makes a number of minor and technical amendments to the *Patents Act 1990*.

Background

1.10 In January 2001, the Prime Minister announced the Government’s Innovation Action Plan, entitled *Backing Australia’s Ability*. The package of measures included policies designed to accelerate the commercial application of ideas.

1.11 In order to implement these policies, the Government committed to strengthening the patent system by acting on some recommendations of both the Intellectual Property and Competition Review Committee’s report, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (September 2000) or Ergas report, and the Advisory Council on Industrial Property’s *Review of Enforcement of Industrial Property Rights* (March 1999). Specifically, the Government committed to:

- implementing a 12 month ‘grace period’ to protect a patent application against invalidation by self-publication and prior public use; and
- strengthening the examination of patent novelty and inventive step so that these criteria for patentability are more closely aligned with international standards.³

1.12 The Government stated that it ‘will also respond in a timely manner to the remaining recommendations of these reviews’.⁴

1.13 An additional impetus for bringing aspects of Australia’s patent system into greater alignment with international standards is provided by the adoption of the Patents Law Treaty on 1 June 2000 by a diplomatic conference under the auspices of the World Intellectual Property Organisation (WIPO).

1.14 While Australia is not yet a party to the treaty, its likely accession was flagged by the Hon. Warren Entsch in the Second Reading Speech to the Patents Amendment Bill because of ‘the advantages it offers to patent applicants’.⁵

Issues in Evidence

1.15 All submissions to the inquiry supported the Bill’s intention of strengthening Australia’s patent and intellectual property system. However, significant concerns were

3 Bills Digest No. 1 2001-02, p.5.

4 Bills Digest No. 1 2001-02, p.5.

5 Patents Amendment Bill 2001, Second Reading Speech, The Hon. Warren Entsch MP, p.2.

expressed about lack of clarity and other defects in the wording of the Bill, the piecemeal adoption of the recommendations of the reports of the Intellectual Property and Competition Review Committee (IPCRC) and the Australian Council on Industrial Property (ACIP), and the failure of the amendments proposed to fully reflect the reasoning of those review recommendations.

1.16 The Australian Academy of Science, for example, expressed the view that the recommendations of both reviews 'are part of a package that should be implemented together, if the amendments are to work as intended'.⁶

1.17 The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) noted that some of the proposed amendments are not based on recommendations of either the IPCRC or the ACIP reports and consequently have not been available for public scrutiny. The IPTA also expressed concern that the form of some amendments does not reflect the recommendations of those reports. The Institute stated:

The effect of these amendments is extremely broad and potentially affects not only all users of the patent system but also persons engaging in commercial activity in Australia. It is the strongly held view of IPTA that these issues require proper deliberation and consultation before the legislation is enacted. Additionally, the precise form of the legislation is extremely important and should be available for consideration by interested parties before it is put to Parliament.⁷

1.18 Both the Australian Federation of Intellectual Property Attorneys⁸ and the Law Council of Australia⁹ also commented on ambiguities or defects in the wording of the proposed amendments.

1.19 Concerns about the proposed amendments were raised in relation to five specific areas. They were:

- expansion of prior art base;
- searches for prior art;
- innovation patents;
- prior use and patent infringement; and
- the proposed grace period.

Expansion of prior art base

1.20 As outlined earlier, amendments in the Bill expand the prior art base against which an invention must be compared in assessing whether it involves an inventive or innovative step. This is done in two ways.

6 Submission No. 4, p.1.

7 Submission No. 3, p.5.

8 Submission No. 1.

9 Submission No. 2.

Geographic scope

1.21 First, the Bill removes the geographical restriction on the relevant knowledge to information possessed in Australia, by excluding the words ‘in the patent area’ from Section 7(2) of the *Patents Act 1990*.

1.22 The Law Council of Australia remarked that, ‘whilst this response has a superficial simplicity, it in fact raises fundamental ambiguities which are likely to require court decisions to resolve’.¹⁰ The ambiguities identified are principally that there is no clear indication as to the geographic extent of common general knowledge for the purposes of the definition, and that the amendment fails to specify that a patent should not be granted in Australia for subject matter which is part of the common general knowledge in the art in the place where it is practised.¹¹ In short, the ambiguity concerns how widely (geographically speaking) information needs to be known to count as ‘common general knowledge’.

1.23 Likewise, the Institute of Patent and Trade Mark Attorneys argued that the amendment as drafted ‘does not reflect the recommendation of the IPCRC and introduces significant difficulties of interpretation’.¹² Under the *Patents Act 1990*, the determination of an inventive step is made against common general knowledge among persons skilled in the art in the patent area (Australia). The IPTA writes that ‘common general knowledge’ has a particular meaning in Australian case law, and is knowledge that every skilled worker in a particular art in Australia is expected to possess as part of their technical equipment. It consists of knowledge obtained through training, experience, observation and reading.

1.24 The IPTA argued that by simply deleting the words ‘in the patent area’ from the Act, the amended section leaves open the question of what is meant by common general knowledge. For example, it could mean knowledge possessed by every skilled worker in a particular field throughout the world. The IPTA claimed that such a definition would be unworkable because of the difficulty of establishing what that knowledge is. Alternatively, it could mean knowledge possessed by *some* identifiable group of skilled workers, which raises questions on the one hand to do with the generality of the knowledge and on the other with ascertaining specialisation in different areas.¹³

1.25 In the light of these considerations the IPTA submitted that the recommendation contained in the Ergas report, that the ‘common general knowledge’ should be limited to that ‘anywhere in the world which a person skilled in the art could have reasonably expected to find, understand and regard as relevant’ should be included in the amendments.¹⁴

1.26 In response, IP Australia suggested that it simplifies matters to claim that Australian case law attaches a particular meaning to ‘common general knowledge’, emphasising that it is knowledge that *every* skilled worker must possess. IP Australia referred to the full High

10 Submission No. 2, p.2.

11 Submission No. 2, p.2.

12 Submission No. 3, p.8.

13 Submission No. 3, p.8.

14 Submission No. 3, pp.8-9. The Australian Federation of Intellectual Property Attorneys also notes that different countries have different rules concerning the concept of ‘common general knowledge’ and that the Bill makes no clear provision in this connection. Submission No. 1, p.3.

Court's judgement in the so-called '3M decision', *Minnesota Mining and Manufacture Co. v Beirsdorf* (1980), which stated that common general knowledge is the background knowledge and experience 'which is *available* to all in the trade in considering the making of new products, or the making of improvements in old...'.¹⁵

1.27 Further, the judgement noted that such common general knowledge could be common to a trade across geographical boundaries, although in the case at issue it found that certain information did not form part of the common general knowledge of those working in Australia.¹⁶

1.28 According to IP Australia's submission, the effect of the proposed amendment is simply to remove reference to Australia such that the concept of common general knowledge becomes globalised to any person skilled in the relevant art. The relevant section of the amended Act would accordingly read as follows:

For the purposes of this Act, an invention is to be taken to involve an inventive step when compared with the prior art base unless the invention would have been obvious to a person skilled in the relevant art in the light of the common general knowledge as it existed before the priority date of the relevant claim, whether that knowledge is considered separately or together with either of the kinds of information mentioned in subsection (3), each of which must be considered separately.¹⁷

1.29 IP Australia stated that, in addition to aligning Australian practice with that overseas, expanding the prior art base in this way would both raise patentability standards in Australia and prevent patents being available in Australia for inventions which would not secure patent overseas. Noting that about 90 per cent of granted Australian patents originate from overseas, IP Australia highlighted the shortcomings of limiting (and therefore lowering) the threshold in Australia:

The effect of having an Australian standard that is lower than international standards is that it does not assist Australian applicants obtaining patents in other countries; however, it enables foreign applicants to obtain patents in Australia in circumstances where they are not able to obtain equivalent patent protection in their own country.¹⁸

Combining documents

1.30 The second way in which the Bill expands the prior art base is by allowing for the combination of two or more documents or parts of documents, different parts of the same document or other pieces of prior art for the purposes of assessing whether an invention is novel. While this expansion of the prior art base arises from a recommendation of the Ergas

15 Supplementary Submission No. 6, p.6. Italics added.

16 The judgement states: 'There may be some fields of endeavour in which those who work therein study and make themselves familiar with all patent specifications as they become available for inspection in one or in many countries so that what was contained therein becomes common general knowledge in that particular trade or field of manufacture in the country in question'. Supplementary Submission No. 6, p.6.

17 Section 7(2).

18 Supplementary Submission No. 6, p.7.

report, both the Law Council and the Institute of Patent and Trade Mark Attorneys expressed concern that the amendment as drafted does not accurately reflect that recommendation.

1.31 In particular, both expressed concern that the proposed amendment states that the information can be combined if ‘it would have been obvious ... to a person skilled in the relevant art to combine those pieces of information’.¹⁹ This wording omits the current requirement that the information can only be combined ‘if the relevant skilled person could have been reasonably expected to ascertain, understand and regard the information as relevant’.²⁰ According to both the Law Council and the IPTA, the consequence of the amendment as drafted would be that information must be considered ‘even if the information or the combination was so obscure that a relevant person skilled in the art could not reasonably have been expected to discover the information and regard it as relevant to the work in question’.²¹

1.32 The result would be significantly reduced certainty about the validity of a patent ‘because of the need to potentially consider the position from the perspective of a skilled person anywhere in the world’. The Institute suggested that:

The practicalities associated with making this assessment will vary considerably from case to case but have the potential to increase costs to Australian based enterprises and increasing opportunity for showing invalidity to overseas based enterprises.²²

1.33 IP Australia stated in response that the amendments will make Australian law consistent with international practice, particularly in Europe, the US and under the Patent Cooperation Treaty. To require that information must be ‘ascertained, understood and regarded as relevant’ as the Law Council and IPTA suggest would place Australia at odds with international standards.

1.34 In any event, IP Australia indicated that it is unnecessary to spell out the need for information to be ‘ascertained, understood and regarded as relevant’. The requirement under the proposed amendments for it to be ‘obvious’ to a skilled person to combine the documents presupposes that ‘it would be necessary for [the skilled person] to ascertain, understand and regard those documents as relevant’.²³

Searches for prior art

1.35 Section 45(3) of the *Patents Act 1990* states that the Patents Commissioner may direct an applicant to inform the Commissioner ‘of the results of ... searches carried out in a foreign country by a specified patent office or organisation in respect of a corresponding application filed outside Australia’.

19 Item 4, Subsection 7(3).

20 Submission No. 3, p.9.

21 Submission No. 2, p.3; see also, Submission No. 3, p.9.

22 Submission No. 3, p.6.

23 Supplementary Submission No. 6, p.8.

1.36 The Bill amends the section to *require* the applicant to inform the Commissioner of the results of searches carried out by or on behalf of the applicant relating to the complete application, any related provisional application and any corresponding application filed outside Australia.²⁴

1.37 Two concerns about this amendment were raised in evidence – the burden on applicants and the unclear scope of the required searches.

Burden on applicants

1.38 The first concern relates to the burden placed on an applicant to discover all searches made within its organisation, whether or not these are known to the inventor. Take the case, for example, where a university is a patent applicant and the inventor is a staff member. The university is obliged, under the terms of the amendment, to disclose all searches that relate to the application even if these searches have been made by individuals other than the inventor, and are not known to the inventor. This requirement contrasts with the recommendation of the IPCRC review which proposed that an applicant must make ‘reasonable enquiry’ within its organisation about what prior art is known to it.²⁵

1.39 In this connection, the Australian Academy of Science observed:

It will be difficult in practice for an academic research entity to organise and fund search activity in a way that will satisfy this provision. It will also be difficult in practice to identify all relevant searches conducted by lab researchers given the high level of research-related search activity commonly undertaken. It may put an unfair burden on applicants to assume part of the job of patent examiners and jeopardise foundation intellectual property generated in the public sector.²⁶

1.40 The Academy noted that the amendment was of particular concern in the light of proposed amendments to Section 102, which have the potential to impose penalties if there are oversights in disclosing search results to the Patent Office.²⁷

1.41 Subsection 102(2C) prevents a patent owner from amending their patent after grant if they had previously failed to disclose prior art information. Thus, if the undisclosed information invalidated a patent or part of it, the patent could not be amended to remove the grounds of invalidity. The Subsection further provides for a penalty if the information contained in the non-disclosed search results invalidates the patent on the grounds of novelty or inventiveness.

1.42 IP Australia advised that the purpose of the penalty is to provide a disincentive for an applicant not to disclose relevant prior art, the consequence of which is ‘that the applicant obtains a patent which includes one or more invalid claims’. IP Australia said that:

Currently a patent owner can deliberately maintain such an invalid patent to scare off competitors. If they intend commencing legal action against a competitor, prior

24 Item 14, Subsection 45(3).

25 Submission No. 2, p.4.

26 Submission No. 4, p.1.

27 Submission No. 4, p.2.

to commencing infringement proceedings they can amend the patent to avoid that known prior art. The effect of subsection 102(2C) is to prevent such a patent owner from amending the patent prior to commencing proceedings (or, indeed, during proceedings) to remove the ground of invalidity.²⁸

1.43 If invoked, the effect of subsection 102(2C) will not necessarily invalidate the patent in its entirety. IP Australia stated that, under subsection 138(3), the court has the discretion to revoke the patent either wholly or just in relation to the claims under question. Whether the failure to disclose on the part of the patent owner was inadvertent would, in IP Australia's view, fall within the discretionary power of the court: 'Failure to disclose search results, and whether or not such a failure was deliberate or accidental, would clearly be relevant to that discretion'.²⁹

1.44 IP Australia did not respond directly to the Academy's concerns about the difficulties faced by large research organisations in complying with these disclosure provisions.

Unclear scope of searches

1.45 A second criticism of the amendment as drafted is that the scope of the 'searches in respect of the complete application or in respect of the provisional application' is unclear. The unclarity arises on two grounds. One is that searches are normally conducted on the invention, whereas the application may contain other information that is also the subject of searches.³⁰ The Institute of Patent and Trade Mark Attorneys has noted that the intention of the subsection would be met, if the results of the searches to be disclosed were restricted to the claimed invention itself rather than extended to the application as a whole.

1.46 In relation to the charge of unclarity in the wording, IP Australia noted that the current subsection 45(3) may require the applicant to inform the Commissioner of Patents about searches 'in respect of a corresponding application' and that this wording has not presented difficulties to date.

1.47 Both the Law Council and IPTA further expressed concern that the wording of the amendment leaves open the possibility that a great deal of irrelevant information, discovered during preliminary searches and discovered through any source (rather than discovered by specified patent offices), must be disclosed. They claim that the requirement to disclose all search information will impose an unnecessary burden on applicants and on the Patent Office itself.³¹

1.48 Against this, IP Australia argued that there are problems with restricting the information required by the disclosure provisions to that relevant to the patentability of the claimed invention. Most notably, since claims may be amended during the application process, information that was relevant to 'the claimed invention' may become irrelevant and information that was deemed irrelevant may become relevant. To restrict, in advance, the information on the grounds of relevance to the first claimed invention would 'require the

28 Submission No. 6A, p.4.

29 Supplementary Submission No. 6, p.4.

30 Submission No. 3, p.11.

31 Submission No. 2, p.4; Submission No. 3, p.11.

applicant to reassess the relevance of any search results every time the claims were amended'.³²

1.49 IP Australia suggested that this would place a far greater burden on applicants than is proposed by the Bill, and would also increase the likelihood of an applicant failing to provide the Commissioner with all the required search results.

1.50 In addition, IP Australia noted that it is the examiner rather than the applicant who properly assesses the relevance of a document to the patentability of an invention.

One of the issues that commonly arises during examination is that the applicant has not fully appreciated the extent of the rights covered by the patent claims. As a result, the applicant's assessment of the relevance of the documents can often be limited to the specific embodiment of the invention that has been put into practice, without a proper appreciation of the full extent of the scope of rights the application in fact covers.³³

1.51 While acknowledging this point, the Committee does note that it could be used to support the view, expressed by the Australian Academy of Science, that it is the job of patent examiners rather than applicants to search for the relevant prior art. Thus, it could be said that the amendments relating to disclosure do impose an additional burden on applicants.

1.52 If this were to prove to be the case, then the Committee would have to question the Financial Impact Statement in the Explanatory Memorandum to the Bill, where it states: 'No additional cost to the Government or to any other person is expected to directly result from these amendments'. An increased burden on the research sector as a consequence of the proposed requirement that applicants search for relevant prior art would, on the face of it, seem to entail an additional cost. **The Committee considers that this aspect of the new provisions should be monitored and, if a significant level of concern is expressed, that it be subject to review two years after the commencement of the Bill.**

Innovation patents

1.53 The Bill essentially extends the stronger tests introduced for standard patents to the new innovation patent system.³⁴ This extension of the same tests (except for the inventive threshold) for the two types of patents reflects the view that innovation patents would be enhanced if they were made to be as valid and enforceable as strengthened standard patents. As IP Australia stated:

Although innovation patents will require a lower inventive threshold³⁵ than that required for standard patents, an innovation patent should provide the same level of protection as a standard patent. Therefore, the Bill makes amendments to strengthen the examination of innovation patents in relation to novelty and

32 Supplementary Submission No. 6, p.3.

33 Supplementary Submission No. 6, p.3.

34 The *Patents Amendment (Innovation Patents) Act 2000* ushered in the new innovation patents system, which superseded the petty patents system as a 'form of second tier intellectual property protection for minor or incremental innovations'. See Bills Digest No.1 2001-2002, p.2.

35 The lower inventive threshold requires an 'innovative step' rather than the inventive step required of standard patents.

innovative step similar to those strengthening the examination of novelty and inventive step of standard patents.³⁶

1.54 Both the Law Council and IPTA argued that the amendments go beyond the improved standards envisaged in previous reports. Although the ACIP and IPCRC reports advocated that innovation patents could be enhanced by applying to them the same prior art base applied to standard patents, this did not amount to a 'universal prior art base'.³⁷ In particular, a distinction was made between overseas *documents* and prior *use* overseas.

1.55 The IPCRC report noted that limiting prior use documents to Australia (as had been the case) was artificial as most documents made available overseas become quickly available in Australia. In that sense, limiting the innovation threshold to Australian documents was meaningless.

1.56 However, the issue of prior use was not considered to be as straightforward. ACIP concluded that in relation to innovation patents 'prior use overseas will be more difficult to demonstrate so use should be restricted to Australia'.³⁸ This restriction would have put innovation patents on the same footing as the current regime for standard patents. According to the Law Council, the reason for limiting prior use to Australia reflects the aim that an innovation patents system should assist Australian small to medium enterprises (SMEs), which tend to have a domestic focus.³⁹

1.57 Although not made explicit in the evidence, the implication is that universal (ie, global) prior use would be an unreasonable threshold for most SMEs; it could act as a barrier to innovation particularly for SMEs concentrating on the domestic market. On the other hand, it seems odd that in the current era of economic and technological globalisation for Australian companies, regardless of size, to be engaged in developing innovations and not have an eye to the overseas application and export potential of their inventions.

1.58 IP Australia pointed out that at the time the ACIP report was written:

...prior use for standard patents was restricted to Australia, and ACIP would not have recommended the introduction of a prior art base for innovation patents which was broader than that which applied to standard patents.⁴⁰

1.59 IP Australia also reiterated that the rationale for amending the innovation patent system is to provide the same degree of protection (the 'presumption of validity') for it as for standard patents. To limit the prior art base for innovation patents in a manner that would be different to the proposed standard patents system would be contrary to the fundamental intention of the Bill: 'It is not intended to be a less valid or less enforceable right'.⁴¹

36 Submission No. 6, p.3.

37 Law Council of Australia, Submission No. 2, p.3.

38 Cited in Submission No. 2, p.3.

39 Submission No. 2, p.3.

40 Supplementary Submission No. 6, p.11.

41 Supplementary Submission No. 6, p.12.

Patent infringements and prior use defence

1.60 Two concerns were raised about amendments to section 119 of the Act that deals with exemptions for patent infringements. The first concern relates to an omission in the Explanatory Memorandum of the Bill, where the amendments are described as remedying an ‘inconsistency’ that is not identified.

1.61 IP Australia addressed this concern in its evidence to the Committee. Currently the exemptions for patent infringements, which are known as ‘prior use defence’, do not cover a situation where a person derived information from the patent owner. While this was intended to cover situations where third parties obtain inventions from a patent owner ‘surreptitiously’, it ‘unintentionally’ also captures third parties who find out about the invention from the patent owner disclosing it publicly.⁴² According to IP Australia:

This is inconsistent with the broad policy objective that the grant of a patent should not prevent any person from continuing to do an act they were legitimately entitled to do before the patent was granted.⁴³

1.62 The Bill attempts to address this problem by expanding the prior use defence to cover situations where:

- The person found out about the invention from information made available by the patent owner or with the patent owner’s consent; and
- That information came about through any publication or use of the invention in prescribed circumstances (such as demonstrating the invention at an international exhibition or publishing a paper to a learned society).⁴⁴

1.63 The second concern raised in evidence goes to the potential consequences of the Bill – consequences that IPTA described as ‘peculiar effects’, the Law Council as ‘illogical results’. The criticism is that by extending the prior use exemption to situations where the patent owner discloses their invention, the Bill potentially undermines the integrity of the patent system itself by denying the patent owner the ability to exact royalties or sue for compensation under the expanded prior use exemption. The Law Council stated:

The proposed amendment extends the prior use defence to people who learn of the invention in these [prescribed disclosure] circumstances. In other words, patentees who have disclosed their inventions in these circumstances are able to obtain valid patents *but not stop users* who commence use after learning of the invention from the inventor’s own disclosure.⁴⁵

42 Subsection 24(1) of the Act and regulation 2.2 of the Regulations outline the circumstances where public disclosure of an invention does not invalidate a later patent application. These limited circumstances are the exception to the general rule that ‘an invention is not patentable if it has been publicly disclosed before the priority date of the patent’. See IP Australia, Submission No. 6, p.8.

43 IP Australia, Submission No. 6, p.8.

44 See Item 23 of the Bill. See also Bills Digest No.1 2001-2002, p.10.

45 Submission No. 2, p.5, italics added.

1.64 IP Australia's response indicates that the Law Council's depiction of the consequence of the proposed expanded prior use defence is consistent with the intent of the law, but it needs to be seen in perspective. IP Australia stated:

An underlying premise of the patent system is that the grant of a patent should not compromise the legitimate interests of third parties. In particular, it should not prevent any person from continuing to do an act they were legitimately entitled to do before the patent was granted.⁴⁶

1.65 In short, what critics see as 'peculiar effects' or 'illogical results' IP Australia asserts is in fact what the patents law should be. This needs to be balanced, however, with the realisation that instances of public disclosure before application are the exceptions to the 'general rule' that the patent applicant should 'always file a patent application before disclosing their invention'. This is the normal approach, which is designed to defend the inventors' interests: 'If they do this [file before disclosure], the third party will not have the opportunity to begin using the invention before patent protection is sought, which will mean they cannot rely on the prior use defence'.⁴⁷

Grace period

1.66 Although the Bill does not propose amendments to introduce a grace period, concerns surfaced in the evidence about the grace period foreshadowed in the Government's Innovation Action Plan. IP Australia noted the Government's intention to introduce the grace period to coincide with the commencement of the Bill. The provision will be introduced by way of amendments to the Regulations.

1.67 The grace period is intended to protect a patent application against invalidation by self publication and prior public use.⁴⁸ As such, it is seen as interrelated to the amendments in section 119 that extend the prior use exemption.

1.68 The grace period is criticised on a number of grounds. These range from the lack of scrutiny and opportunity for consultation on the matter, through to its potential anti-competitive side effects and the 'intolerable burden' of uncertainty that it may place on Australian industry.⁴⁹ The major concern, however, seems to be the risks involved in Australia adopting a grace period in advance of overseas countries. As noted in one quarter:

The risk with Australia adopting a grace period is that while prior publication may not injure patentability in jurisdictions with grace periods, it may destroy it in those without.⁵⁰

1.69 The European Union is of particular concern, due to the division among its members over the merits of a grace period which may delay adoption of such measures for five years or more, if not preventing it all together. The IPCRC report considered the European

46 Supplementary Submission No. 6, p.12.

47 Supplementary Submission No. 6, p.13.

48 See Bills Digest No.1 2001-2002, p.13.

49 Law Council, Submission No. 2, p.5; IPTA Submission No. 3, pp.12-13.

50 Bills Digest No.1 2001-2002, p.12.

question, concluding that Australia should coordinate the introduction of a grace period with Europe if the European Patent Organisation were seen to be expediting the matter. But in the event of delays in Europe, the IPCRC report recommended that 'Australia proceed first' and 'independently of ... a similar change in Europe'.⁵¹

1.70 The Committee finds it hard to reconcile these recommendations with the Law Council's claim that the IPCRC report was not advocating adoption 'at this time'.⁵² It seems to the Committee that the Government's adoption of a grace period is in line with the views of the IPCRC report.

1.71 IP Australia advanced a number of reasons for Australia adopting a grace period. The overall argument is that, on balance, the advantages to be had from it in rectifying existing problems outweigh the risks of adoption. In particular, IP Australia stated that:

- The research community strongly supports a grace period, particularly due the pressures on it to publish research results;
- A grace period serves as a 'safety net' in instances of inadvertent or mistaken disclosure prior to the application for a patent, which are said to be quite common. Without a safety net, patents can be invalidated due to inadvertent disclosure, as has happened with recent Court rulings against some smaller companies;
- The argument that a grace period would increase uncertainty overstates the degree to which this would be a problem, and also overlooks the uncertainty that exists under the current system. Comparing the current system with the expected working of the grace period, IP Australia claimed that 'the maximum period of uncertainty for third parties will not be increased from what it potentially is at present';⁵³ and
- IP Australia will run a 'comprehensive public awareness and educational campaign' to accompany the measure's introduction.⁵⁴

1.72 In terms of international risks, IP Australia pointed to the 38 countries that already recognise a grace period, including the United States, Canada and Japan (even though the Australian provision will differ from that in the US). In IP Australia's view:

The fact that most European countries do not recognise a grace period has not prevented these thirty-eight countries from offering patent applicants the benefits associated with a grace period.⁵⁵

1.73 The significant number of countries that recognise grace periods suggests that Australia's adoption of a similar provision would be neither strictly unilateral nor

51 *Review of Intellectual property legislation under the Competition Principles Agreement*, Final Report of the Intellectual Property and Competition Review Committee, September 2000, pp.160-161.

52 Submission No. 2, p.5.

53 Supplementary Submission No. 6, p.15.

54 Submission No. 6, pp.10-13.

55 Submission No. 6, p.11.

‘premature’.⁵⁶ It also suggests that the potential international risks may be, in general terms, less real than is suggested.

1.74 On the other hand, it should be noted that this argument does not address the particular risks that might arise in the European context, such as Australian inventors losing patent rights in certain European countries or the Union itself. This points to the question raised in one assessment, ‘whether the downside of moving ahead of developments in jurisdictions where Australian inventors may wish to lodge patents, such as the EU, has been adequately evaluated’.⁵⁷

1.75 In responding to criticism of the grace period, IP Australia emphasised that it intends to ‘work closely with interest groups in preparing regulations for the grace period.’⁵⁸ **The Committee considers that in preparing the regulations IP Australia and interest groups should work together to identify in more detail the risks that stem from the uneven international adoption of grace periods and, where necessary, formulate strategies to address them.**

1.76 In addition, the Committee notes that IP Australia has foreshadowed a review of the grace period two years after it comes into operation. This may provide an appropriate opportunity to gauge the intentions of the European Union in particular and to further assess the extent to which problems, if any, have materialised for Australian inventors in jurisdictions without grace period provisions.

Additional issue – US approach

1.77 One witness recommended that Australia should explore the ‘continuation-in-part’ patent system used in the US. Claiming that the provisions proposed in the Bill would reduce patent applications and research and development (R&D) investment, Dr Ian Ferguson pointed to the attractions of the US approach:

The USA’s continuation-in-part patent system allows investors/R&D teams to strengthen their patent by building upon and proving up the original innovation and adding these improvements ‘in-parts’ to the original patent filing. ... It recognises the dynamic nature of R&D and supports a culture of continual innovation and improvement.⁵⁹

1.78 IP Australia’s response pointed to similar advantages that exist with provisional patent applications in Australia, as well as some difficulties that a continuation-in-part system introduces. According to IP Australia, it is quite common for inventors to file provisional applications for significant developments during the gestation of inventions.

1.79 However, IP Australia warned that with the continuation-in-part approach inventors can run into problems if they apply for patent protection in other countries. While a lapsed provisional application under the Australian system generally does not pose a hurdle to

56 Submission No. 2, p.5.

57 Bills Digest No.1 2001-2002, p.13.

58 Supplementary Submission No. 6, p.14.

59 Submission No. 5, p.1.

securing patent protection in other countries, the ‘continuing’ nature of an earlier application to an American continuation-in-part may create ‘significant obstacles’ in other jurisdictions.⁶⁰

Recommendation

1.80 The Committee recommends the Senate pass the Bill.

Senator the Hon Brian Gibson
Chairman

60 Supplementary Submission No. 6, pp.16-17.

PATENTS AMENDMENT BILL 2001

LABOR SENATORS MINORITY REPORT

Summary of Recommendations

Labor Senators recommend that the Government develop a formal process for consulting widely across the intellectual property and research sectors to develop any proposed amendments to the Bill.

Labor Senators condemn the Government's partial and inadequate response to reviews such as the Ergas Committee and staggered approach to intellectual property reform as damaging Australia's intellectual property infrastructure by creating uncertainty for the intellectual property and research sectors.

Labor Senators recommend that the Senate conduct a review the economic impact of proposed reforms to Australia's patent system, prior to the passage of the Bill.

Labor Senators recommend that the Bill be amended in consultation with the intellectual property and research sectors to better clarify the realistic scope of information that must be disclosed during the patent application process.

Labor Senators recommend that the Bill be amended to require the Minister to conduct and have regard to the findings of a review of international movements toward the adoption of grace period provisions prior to the introduction of regulations introducing such a framework in Australia.

1.1 Concerns raised about the Committee process

1.2 Notification and contact with interested parties

Labor Senators note concerns raised by the Australian Federation of Intellectual Property Attorneys (FICPI) Australia about the adequacy of consultation with interested parties to the Bill, and the inadequacy of the consultation period in respect to the time required to consider and prepare detailed submissions on this complex set of reforms.

Labor Senators also note the broad range of concerns raised by organisations such as the Australian Law Council and the Institute of Patent and Trademark Attorneys, and recognise that the continuing existence of such concerns raises serious questions about the apparent lack of consultation and consensus forming underlying the development of these reforms.

Labor Senators recommend that the Government develop a formal process for consulting widely across the intellectual property and research sectors to develop any proposed amendments to the Bill.

2.1 Concerns raised about the Bill

2.2 Partial reform

While Labor Senators agree with the broad principles underlying the Bill, we note that the proposed reforms only address some of the fundamental issues identified by previous inquiries into Australia's intellectual property framework.

The Government indicated in the context of the announcement of the *Backing Australia's Ability* statement in January this year that it "will also respond in a timely manner to the remaining recommendations of the reviews".¹

Labor Senators agree with the views raised in submissions to the Committee that if further reforms are to be proposed, that the reforms would be more appropriately dealt with by the Parliament in whole, to better gauge the impact and potential effect of such heavily integrated reforms.

Labor Senators believe that the uncertainty created by the promise of further change only serves to inhibit the growth and development of Australia's intellectual property sector, by discouraging investment and institutional expansion.

Labor Senators condemn the Government's partial and inadequate response to reviews such as the Ergas Committee and staggered approach to intellectual property reform as damaging Australia's intellectual property infrastructure by creating uncertainty for the intellectual property and research sectors.

2.3 The economic impact of proposed reforms

Labor Senators are concerned that while the Committee noted that IP Australia did not respond directly to concerns raised about the difficulties faced by large research organisations in complying with the proposed disclosure provisions, these issues are central in the broader debate about intellectual property reform, and the development of an appropriate intellectual property framework in Australia

Labor Senators note that both the Australian Law Council and the Institute of Patent and Trademark Attorneys raised concerns about the potential burden on these sectors of the reforms proposed in the Bill, and the apparent lack of any legitimate attempt to gauge the potential impact of the Bill.

The Explanatory Memorandum to the Bill indicates that the proposed reforms will have no economic impact, yet clearly many hold the view that this is not the case.

The question of placing economic barriers to the growth of Australian innovation seems absurd, given the attention paid to the value of innovation to the economy in recent years.

1 Bills Digest No. 1 2001-02. P5.

The question of the impact of reforms on Australia's domestic intellectual property infrastructure must not be ignored, particularly when concerns about the reforms are being voiced by significant numbers of the peak professional operators in the field of intellectual property.

Labor Senators recommend that the Senate conduct a review the economic impact of proposed reforms to Australia's patent system, prior to the passage of the Bill.

2.4 Clarification of some wording of the Bill

In response to concerns about the lack of clarity in some wording of the Bill², IP Australia contended that under the current regime, where the Act "may require" applicants to inform the Commissioner of Patents about searches "in respect of a corresponding application" the wording had not presented difficulties to date.

This raises the question of the degree to which the requirement has been applied in the past, and under what circumstances, and again raises questions about the financial impact of these reforms, in this case the issue of what the additional cost of requiring applicants to provide such information in every instance may be.

The uncertainty created by this reform further emphasises the concerns raised in submissions to the Committee about the potential cost to industry and the research sector of these reforms.

Labor Senators recommend that the Bill be amended in consultation with the intellectual property and research sectors to better clarify the realistic scope of information that must be disclosed during the patent application process.

2.5 Adoption of Period of Grace provisions

Several submissions³ to the Committee noted the dangers of Australia adopting a "period of grace" regime, deigned to protect a patent application against invalidation by self publication in certain circumstances and prior public use, in advance of major trading partners, notably the European Union.

As noted in previous submissions, the risk with Australia adopting a grace period in advance of other jurisdictions is that while publication may not injure patentability in jurisdictions with grace periods, it may destroy it in those without.⁴

The Government announced during the launch of the *Backing Australia's Ability* strategy that it would introduce period of grace provisions into Australia's intellectual property framework.⁵

2 See for example Committee Submission 1 - Australian Federation of Australian Intellectual Property Lawyers.

3 Committee Submission 2 – Australian Law Council, p5. and Committee Submission 3 – Institute of Patent Attorneys (Australia), pp12-13.

4 See Bills Digest No. 1 2001-02, p12.

5 Backing Australia's Ability Innovation Action Plan – January 2001

While Labor Senators recognise the international movement towards a uniform grace period framework, we also recognise the danger to Australian innovators raised by the early adoption of such a regime.

Labor Senators recommend that the Bill be amended to require the Minister to conduct and have regard to the findings of a review of international movements toward the adoption of grace period provisions prior to the introduction of regulations introducing such a framework in Australia.

**Senator Shane Murphy
Senator for Tasmania**

**Senator George Campbell
Senator for NSW**

AUSTRALIAN DEMOCRATS

DISSENTING REPORT

1. Introduction

- 1.1 The Australian Democrats do not support the Chair's recommendation that the Senate pass the Bill. In our view there are a number of defects with the Bill, which require amendment.
- 1.2 The Australian Democrats are committed to deepening an innovation culture in Australia. We recognize that development of human and intellectual capital is basic to the success of an innovation society in a global knowledge economy.
- 1.3 Accordingly we are supportive of developing a robust intellectual property system that provides incentives for investment in developing intellectual property and enables rapid diffusion of intellectual property while balancing the needs of the community and consumers.
- 1.4 While broadly supportive of the intent to strengthen Australia's intellectual property system, the Democrats are concerned that the Government's proposed amendments to the *Patents Act 1990* which will potentially increase costs for applicants, create uncertainty in the patent process and reduce investment in innovation. We do not believe this is a desirable outcome and is at odds with the Government's professed concern to enhance innovation.
- 1.5 As the Institute of Patent and Trade Mark Attorneys (IPTA) pointed out in its submission "the effect of these amendments is extremely broad and potentially affects not all users of the patent system but also persons engaging in commercial activity in Australia".¹

2. The Bill

- 2.1 The Bill seeks to implement changes to Australia's intellectual property system as foreshadowed in the Government's innovation plan – *Backing Australia's Ability*.
- 2.1 It seeks to make Australian patents more certain by raising the threshold for obtaining a patent and aligning the novelty and inventive step requirements more closely with international standards.
- 2.2 The Bill amends the *Patents Act 1990* in three main ways. First, it expands the prior art base by removing geographic constraints and permitting combinations of different pieces of information. Secondly, it introduces a 'balance of probabilities test' to replace the requirement that applications be given the benefit of the doubt and finally,

1 Institute of Patent and Trade Mark Attorneys (IPTA), Submission No. 3, p. 5. See also FICPI, Submission No. 1, p. 3

it requires an applicant for a standard patent or an innovation patent owner to provide the commissioner the results of any searches of the prior art base.

- 2.3 As the Chair's report notes (1.2) the committee was asked to consider the intent, clarity and legal consequences of the proposed amendments. It is telling that all the submittees had substantial familiarity with various aspects of Intellectual Property and all highlighted defects in the proposed legislation. As the Chair's report correctly states

significant concerns were expressed about lack of clarity and other defects in the wording of the Bill, the piecemeal adoption of the recommendations of the reports of the Intellectual Property and Competition Review Committee (IPCRC) and the Australian Council on industrial Property (ACIP), and the failure of the amendments proposed to fully reflect the reasoning of those review recommendations (1.15).

It is disappointing then, that these significant concerns remain unaddressed.

3. Expansion of Prior Art Base

- 3.1 A number of submittees pointed out that removing the geographical restriction on the relevant knowledge creates interpretive difficulties.²
- 3.2 The Democrats accept the merit of these arguments and note in particular the recommendation in the Ergas report that the 'common general knowledge' should be limited to that 'anywhere in the world which a person skilled in the art could have reasonably expected to find, understand and regard as relevant'³.
- 3.3 This recommendation is supported by IPTA and the Democrats believe an amendment to give affect to the Ergas recommendation is warranted.
- 3.4 The LCA and IPTA also raised concerns about allowing the combination of two or more documents or other pieces of the prior art to assess whether an invention is novel. They note that the amendment as drafted does not accurately reflect the Ergas recommendation.⁴
- 3.5 The Democrats are most concerned that the amendment has the potential to increase costs as pointed out by IPTA.⁵ This may eventuate with the conjunction of the increase in the threshold test by expanding the permissible combination of information and the dropping of the current requirement that combination is only permissible if the relevant person could have been *reasonably expected* to ascertain, understand and regard the information as relevant. While noting the response of IP Australia the Democrats will seek further advice but do foreshadow the possible need for amendment.

2 Law Council of Australia (LCA), Submission No. 2, p.2, IPTA, Submission No. 3, p. 8

3 Review Of The Intellectual Property Legislation Under The Competition Principles Agreement, Final Report By The Intellectual Property And Competition Review Committee, September 2000, p. 156

4 LCA, Submission No. 2, p. 3, IPTA, Submission No. 3, p. 9

5 IPTA, Submission No. 3, p. 6

4. Searches For Prior Art

4.1 The Democrats are concerned that the increased requirement on applicants to discover all searches may have cost implications for universities and research institutes.

4.2 In their submission, the Australian Academy of Science argued

It will be difficult in practice for an academic research entity to organise and fund search activity in a way that will satisfy this provision. ... It may put an unfair burden on applicants to assume part of the job of patent examiners and jeopardise foundation intellectual property generated in the public sector.⁶

4.3 The LCA noted that the Ergas committee recommended that an applicant must make “reasonable inquiry” within its own organisation. They note that not including this element of the Ergas recommendation;

means that there is an absolute obligation for all knowledge of an organisation, however large and wherever located and whether known to the inventor or not to be disclosed even if such knowledge could not be found by reasonable inquiry.⁷

4.4 As the Chair’s report noted (1.51), the additional burdens call into question the claim in the Financial Impact Statement in the Explanatory Memorandum to the Bill that “No additional cost to the Government or to any other person is expected to directly result from these amendments.”

4.5 The Democrats are satisfied that this provision of the Bill may place an unreasonable burden on applicants and increase costs and uncertainty. This is manifestly at odds with the public interest in enhancing our intellectual property system. Rather than simply monitor the new provisions as argued by the Chair’s report (1.52), the Democrats will seek to amend the legislation to provide a more pragmatic and reasonable approach.

5. Additional concerns

5.1 As the Chair’s report notes concerns were also raised about the lack of clarity in the scope of searches, changes to the innovation patent whereby universal prior use will be by an unreasonable threshold for SMEs (1.57), patent infringements and prior use defence and the foreshadowed introduction of a grace period.

5.2 The Democrats share some of the concerns of submittees on these issues and may seek to amend the Bill to remedy some of the concerns.

5.3 The Democrats note with much interest the submission of Dr Ian Ferguson who along with the Academy of Science provided the committee with a knowledge producer’s perspective.

6 Australian Academy of Science, Submission No. 4, p. 1

7 LCA, Submission No. 2, p. 4

5.4 Dr Ferguson argued for serious consideration of the US's continuation-in-part patent system as it better reflects the dynamic nature of R&D and innovation.⁸ The Democrats are not convinced by IP Australia's negative response to this suggestion⁹ and recommend that this idea be explored in greater detail with a view to possible future amendment to Australia's IP system.

6. Process

6.1 The Democrats note the concern raised by a number of submittees that a number of the elements in the Bill only partially reflect elements of the final report of the Intellectual Property And Competition Review Committee (IPCRC).¹⁰ Moreover, the Democrats are concerned that this piecemeal approach is exacerbated by the Government's failure to table its response to the final report and the ACIP Enforcement Report of March 1999.

6.2 We do not accept that just because the Government stated in **Backing Australia's Ability** that it intended to fast-track the changes to the patent system that this justifies the absence of a coherent and well considered IP framework.

6.3 By way of conclusion the Democrats wish to express our concern with the absence of a public hearing into these matters. All non-government submissions raised substantial concerns that warranted further elaboration and public discussion.

Senator Aden Ridgeway

8 Dr Ferguson, Submission No. 5, p. 1

9 IP Australia, Supplementary Submission No. 6, pp. 16-17

10 IPTA, Submission No. 3, p. 3

APPENDIX 1

LIST OF SUBMISSIONS

Submittor	Submission Number
The Australian Federation of Intellectual Property Attorneys (FICPI Australia), VIC	1
Law Council of Australia, ACT	2
The Institute of Patent and Trade Mark Attorneys of Australia (IPTA), Vic	3
Australian Academy of Science, ACT	4
Flinders University, Ferguson, Mr Ian, SA	5
IP Australia, ACT	6
IP Australia, ACT	6A