‘GETTING THE BALANCE RIGHT’

Raising patentability standards and giving greater certainty in the validity of granted patents

A submission by:

Knowledge Commercialisation Australasia Inc (KCA)
(www.kca.asn.au)

Contact Person: Dr Andy Sierakowski, Chair KCA.
Email: afs@admin.uwa.edu.au
Phone: 08 6488 7048

Dated 15th May 2009

Statement of Interests:
KCA is the peak body representing public sector research organizations engaged in technology transfer and commercialization of intellectual property assets. Current members of KCA can be viewed on the KCA website.

Acknowledgement:
KCA wishes to thank Drs Jensen & Webster at IPRIA for their advice on this submission.

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

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

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

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

a. Harmonisation of International Standards

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

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

b. Raising the Patentability Threshold

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

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

c. Increasing Patent Validity Certainty

It is virtually axiomatic that more certainty for business, makes business more efficient. Elsewhere in an IPRIA report, it was argued that a regime involving a high inventive step, a rigorous examination procedure and courts predisposed to affirm the patent office decision

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

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

3.1 Proposed change
Amend s40 of the Act to:
• introduce descriptive support requirements analogous to those applied in other jurisdictions including that the whole scope of the claimed invention be enabled and that the description provide sufficient information to allow the skilled addressee to perform the invention without undue experimentation.

3.2 Proposed change
Amend s40 and s102 and of the Patents Act to:
• explicitly indicate that the requirement for full description is met if the description of the claimed invention was sufficient at the filing date to allow the skilled addressee to perform the invention without undue experimentation.

3.3 Proposed Change
Amend reg 3.12(1)(b) of the Patent Regulations to:
• replace the 'fair basis' requirement for establishing the priority date of claims with a descriptive support requirement analogous to those applied in other jurisdictions, and to that proposed for s40.

4.1 Proposed change
Amend s7(2) of the Patents Act to :
• remove the limitation that common general knowledge be confined to that existing in Australia.

4.2 Proposed change
Amend s7(3) of the Patents Act to:
• remove the requirement that prior art information for the purpose of inventive step must be such that a person skilled in the art could be reasonably expected to have been ascertained, while retaining the requirements that prior art be understood and regarded as relevant.
The definition of the prior art base for inventive step will not change.

4.3 Proposed change
The proposed change seeks to:
• revise the inventive step test to a test where the claimed invention is obvious if it was 'obvious for the skilled person to try a suggested approach, alternative or method with a reasonable expectation of success'.

5.1 Proposed change
Amend the Patents Act and/or Regulations to:
• include usefulness among the grounds considered during examination and re-examination and clarify that the requirement for usefulness is only satisfied if the patent specification discloses a specific, substantial and credible use for the invention.

5.1 Proposed change
Amend s(45) of the Patents Act to:
• include prior use among the grounds considered during examination and re-examination.

5.3 Proposed change
Amend s(98) of the Patents Act to:
• expand the grounds for re-examination to all of the grounds considered during normal examination.

6 Proposed change
Amend the Patents Act to:
• clarify that 'balance of probabilities' is the standard of proof applied to all requirements during examination, re-examination and opposition proceedings.

In light of our analysis of the issues above, we provide in principle support to the proposed changes.

References

Federal Trade Commission (2003), To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, October, Washington.

Jensen, P.H. and Webster, E. (2004). "Achieving the optimal power of patent rights", *Australian Economic Review* 37(4), 419-426.