



THE AUSTRALIAN FEDERATION OF INTELLECTUAL PROPERTY ATTORNEYS
FICPI AUSTRALIA

20 June 2016

WEBSITE: www.ficpi.org.au

By email

Intellectual Property
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

PRESIDENT:
STEPHEN KROUZECKY
C/- Krouzer IP
G15, Macarthur Point Building
25 Solent Circuit
Baulkham Hills NSW 2153
Australia

Dear Commissioner

Intellectual Property Arrangements
Productivity Commission Draft Report April 2016
FICPI Australia Part 2 response

Telephone
(02) 9680 8622
International
+612 9680 8622
Facsimile
(02) 8850 7789
International Facsimile
+612 8850 7789
E-Mail
stephen.krouzecky@ficpi.org

Further to our Part 1 response, we are now providing our Part 2 response, which includes our Part 1 response for convenience.

About FICPI Australia

FICPI Australia is the Australian National Association of the International Federation of Intellectual Property Attorneys (FICPI).

SECRETARY:
BILL MCFARLANE
C/- Madderns
Level 4 19 Gouger Street
Adelaide, South Australia, 5000
Australia

FICPI is unique. It is the only international NGO whose membership consists exclusively of IP attorneys in private practice. FICPI therefore represents a key constituency of the international IP system.

Telephone
(08) 8311 8311
International
+618 8311 8311
Facsimile
(08) 8311 8300
International Facsimile
+618 8311 8300
E-Mail
bill@madderns.com.au

Founded more than 100 years ago, in 1906, FICPI now has more than 5,000 members in over 86 countries, including the US and Japan, Australia and New Zealand, a strong European membership and newly established national sections in India and PR China. Further details regarding FICPI can be found at www.ficpi.org.

Before being admitted, an applicant for membership of FICPI must satisfy prescribed criteria as to their character, experience and international reputation.

TREASURER:
MARK ROBERTS
C/- Davies Collison Cave
1 Nicholson Street
Melbourne VIC 3002
Australia

FICPI's members represent their clients in patent, trade mark and design matters, and related forms of IP, at the national, regional and international levels. Clients of FICPI members range from individuals and SMEs to multi-national industries, as well as universities, governmental and non-governmental organisations and other institutions, who are applicants and non-applicants alike. FICPI members have assisted in the drafting of IP laws and treaties. FICPI is therefore able to offer well balanced opinions with regard to newly proposed international, regional or national legislation or practice guidelines on the basis of a wide range of different levels of client knowledge, experience and business needs of the IP system.

Telephone
(03) 9254 2777
International
+613 9254 2777
Facsimile
(03) 9254 2700
International Facsimile
+613 9254 2700
E-Mail
MRoberts@davies.com.au

FICPI aims to enhance international cooperation within the profession of IP attorneys in private practice and to promote the training and continuing education of its members and others interested in IP protection.



The members of FICPI Australia are all registered Patent Attorneys or registered Patent and Trade Marks Attorneys who have senior roles in Patent Attorney firms conducting business in Australia.

FICPI Australia adopts the statutes of FICPI and includes in its own objects to:

- aid in the tuition and introduction of practice, procedure and legislation for the benefit and protection of inventors, patentees, traders and manufacturers in Australia and other countries;
- establish inter-communication between members; and
- facilitate contact and communication of the members of its association with members of FICPI in other countries.

Submission Comments

As explained in our Part 1 response, our Part 2 provides our complete response on the matters that FICPI Australia feels competent to reply having regard to the background of our members as indicated above. More particularly, the specific aspects of the Draft Report that we have responded to our as follows:

Overview Key points: first bullet point (A), second bullet point (B), third bullet point (C), fifth bullet point (D) and eighth bullet point (B).

Draft recommendations: 2.1, 6.1, 6.2, 6.3, 7.1, 8.1, 9.1, 9.2, 9.3, 9.4, 9.5, 10.1, 11.1, 11.2, 12.1, 15.1, 17.1 and 18.1

Draft findings: 10.1, 16.1 and 17.1

Information requests: 6.1, 6.2, 8.1, 9.1, 11.1, 11.2, 12.1, 13.1, 16.1, 16.2, 16.3, 17.1 and 18.1

Comments on Key Points and Recommendations: Chapters 2, 3, 6, 7, 8, 9, 10, 11, 12, 13, 15, 16, 17 and 18

We would appreciate the opportunity to expand upon our views, especially where these may be seen to be contrary or alternative to the recommendation or reasoning of the PC. Therefore, we would welcome direct feedback and dialogue with representatives of the PC.

In making our submission, we have adopted a format following that of the "All chapter key points and recommendations" document provided with the Draft Report, and limited our submission to only those sections of the Report with which our members have experience and are involved with, primarily being patent, trade marks and designs aspects of intellectual property. However, we have also made comments on other sections of the report where we have a view, given our involvement with the IP system as a whole.

Yours sincerely

Stephen Krouzecky
President
FICPI Australia



Submission Intellectual Property Arrangements - Productivity Commission Draft Report
April 2016

OVERVIEW

Key points:

- A) Intellectual property (IP) arrangements need to balance the interests of rights holders with users. IP arrangements should:
- (i) encourage investment in IP that would not otherwise occur
 - (ii) provide the minimum incentives necessary to encourage that investment
 - (iii) resist impeding follow-on innovation, competition and access to goods and services

FICPI Australia is supportive of the key point subject to any follow-on innovation, competition and access to goods and services not being at the expense of diluting or displacing the entitlement of the creator of the IP that triggered the follow-on innovation, to benefit reasonably from their originating creation.

FICPI Australia cautions the PC from being captive to lobbyists and small interest groups that are not necessarily representative of all participants in the marketplace, especially Australian SMEs, who largely tend to be unrepresented. In this respect, FICPI Australia notes that the report tends to have a bias towards the interests of follow-on innovators and special interest groups, and not so much the originators and innovators of IP. It is the originators and innovators that are the ones that undergo the research and development in the first place to arrive at a successful innovation, and then take the financial risk and survive the “valley of death” of the commercialisation cycle to enter and succeed in the marketplace. It is only this originating cycle that then paves the way for follow-on innovators who are not exposed to the same barriers to market entry.

Therefore it is most important to strike the right balance that both supports the originators and innovators of IP, and permits improvement in competition in the marketplace by follow-on innovators. If the pendulum is swung too much in favour of the latter, then real innovation in Australia will be stifled, allowing overseas corporates and multinationals to use their financial resources to further entrench marketplace dominance and prevent local start-ups competing in Australia and the world stage, whereas swinging the pendulum too much in favour of the former may indeed restrict greater engagement of local industry in a marketplace dominated by IP savvy overseas corporates and multinationals, to participate in it with socially valuable products and services.

- B) Improvements are needed so Australia’s copyright and patent arrangements function effectively and efficiently.

FICPI Australia, generally speaking, considers that Australia’s patent system adequately balances the interests of the public and innovators, and other countries and regions continually look towards adopting features and aspects of the Australian system, which have been absent from theirs. The USA adopting a provisional application system, and currently considering the adoption of pre-grant opposition proceedings are examples of this.



With the reasonably considerable amount of reform legislation that the Australian Patents Act has undergone during the last decade, Australia is a world leader in creating and developing improvements that serve the interests of SMEs in particular, e.g. the innovation patent system and the streamlining of the pre-grant opposition procedure and re-examination proceedings.

Given that the reform agenda has been very accommodating of the interests of SMEs in Australia and has not been swayed to totally serve the interests of large corporates and multinationals, members of FICPI in other countries see Australia as a leader in meeting a perceived need not being met by their own patent legislation. Consequently, many of the resolutions and conclusions reached by the work and study groups of FICPI, when balancing patent law in countries and regions at diverse ends of the spectrum such as USA on the one hand and Europe on the other, often times adopt the Australian patenting position as being well thought out and investigated at a deeper level. In this respect, members of FICPI Australia have found the law in both Europe and USA to be quite rigid and antiquated, lacking any accommodation of modern day realities of innovation, and ripe for reform.

Therefore, we would caution the PC from simply believing that either the European patent system or the US patent system are iconic patent systems that operate effectively and reflect modern day issues in their own jurisdictions. By contrast, the Australian Patents Act is much further advanced and closer to serving the needs of its nationals given the comparatively large volume of reform that it has undergone in recent times compared to either European or US patent rules and regulations.

In FICPI Australia's view, the interests and health of SMEs are highly important to the 'well-being' of the Australian economy. However, the problems faced by SMEs in the innovation sector, in the main, do not lie with Australia's existing patent arrangements functioning more effectively and efficiently. Rather, it is the experience of FICPI Australia's members that a reluctance of these entities to engage with the IP system is largely due to a lack of education and ignorance in the benefits of IP, the lack of financial assistance available to SMEs to help commercialise their innovations, and the relatively high costs associated with enforcing IP rights. Tackling these issues will better position SMEs against the market dominance of large corporates and multinationals in the Australian economy, rather than tampering to any great extent with the fundamentals of the IP system in Australia.

C)

Australia's patent system grants protection too easily, allowing a proliferation of low-quality patents, frustrating the efforts of follow-on innovators, stymieing competition and raising costs to the community. To raise the quality of patents, the Australian Government should:

- increase the degree of invention required to receive a patent, abolish the innovation patent, redesign extensions of term for pharmaceutical patents, limit business method and software patents, and use patent fees more effectively.

FICPI Australia strongly disagrees with the point that the Australian patent system grants protection too easily. The Australian patent system provides an equitable and balanced system that serves the interests of patentees, follow-on innovators and the public, with appropriate mechanisms for all parties to be heard both pre- and post-grant, including the availability of a relatively low-cost re-examination regime.



FICPI Australia suggests that there is a false perception that the Australian patent system grants protection too easily, without truly understanding how the system works. FICPI Australia acknowledges that there are inconsistencies in examination practice. The problem arises from a lack of resourcing and training of quality examiners within IP Australia, rather than the threshold for granting of patents being too low. It is hardly the take-up of low quality patents that frustrates the efforts of follow on innovators, when the number of patents granted is minuscule compared to the volume of innovation and copying that takes place in the Australian market place.

The argument being projected by IP Australia that the take-up of the innovation patent system, which supposedly is the major example of issuing low quality patents, is so small as to not justify it being continued, is false and baseless. The fact is that without a low-level IP protection system, it is easier for a business to copy an existing innovation proven to be successful by its originator, after the originator of the innovation has taken on the commercial risk and expense of developing the innovation and entering the market place. This barrier to entry into the marketplace has little to do with the quality of the patent, as the barrier exists for any innovation deserving of patent protection or not.

What FICPI Australia considers is more important, is that originators of innovations are not discouraged from actually engaging in the process of innovation, taking the financial development and market entry risk and actually entering the marketplace. This is necessary so that the Australian economy moves from an industry of low-tech copiers to higher tech innovators, with the innovation being granted adequate protection under the IP system.

Furthermore, the IP system already provides for arguably low quality IP rights, which the PC is not recommending to abolish, such as trade marks, designs and copyright works, where there is no test for obviousness or merit. The rights granted in some of these regimes have a scope and duration much greater than that which is provided under the innovation patent system. This then begs the question: why should innovations meeting the existing tests under the patent system that are already much higher than those under other IP regimes, be discriminated against compared to innovations protected by these other regimes?

FICPI Australia considers that the basal assumption of what constitutes a low quality patent as propounded by the examples referred to in Appendix D considered in the Moir report to be highly subjective and biased. There is an ex post facto assumption that the invention concerned in each example is trivial, despite it being considered by the patent examiner to satisfy novelty and inventive step requirements. Surely the problem lies either with the perception that the invention is trivial being false, as the examiner obviously did not consider it to be trivial, or that the examiner incorrectly applied the law for novelty and inventive step. In either case, this is not a fault of the patent system, but rather its execution or perceptions of it. Interestingly, there appears to be no analysis given of the market success of the particular innovations concerned and the contribution of this success to the economy. Surely if the innovation was a commercial success and was able to be leveraged and the IP intelligently exploited, then this would be an example of a high quality patent, regardless of the perceived merit of the innovation.

FICPI Australia is highly supportive of the innovation patent system, and that the system should be maintained. Please refer to our submission under section 7 for more details regarding this.



FICPI Australia is highly supportive of retaining the existing regime for extensions of term of pharmaceutical patents. Please refer to our submission under section 9 for more details regarding this.

FICPI Australia considers the law at present is more than adequate to separate those business methods and software patents that are patent eligible from those which are not. It is the very fabric of the couching of section 18 in terms of defining a patentable invention as a manner of manufacture within the meaning of section 6 of the Statute of Monopolies that enables the law itself to arrive at conclusions as to what is and what is not patentable subject matter consistent with the landmark decision held in the NRDC case. It has been the wisdom of the legislators to not tamper with the definition of patentable subject matter that enables the law to have regard to what is considered to be socially and commercially valuable IP in the present day, and which is in the field of economic endeavour.

Therefore FICPI Australia urges the PC not to tamper with the definition of patentable subject matter in Australia, which has stayed the test of time now for over 50 years. Please refer to our submission under section 8 for more details regarding this.

D)

While Australia's enforcement system works relatively well for large rights holders, reforms can improve outcomes for small- and medium-sized enterprises.

- Recent self-initiated reforms of the Federal Court, with an emphasis on lower costs and informal alternatives, should improve enforcement outcomes and replicate many of the benefits a dedicated IP court would offer.

FICPI Australia does not disagree with this key point; the court system still has a long way to go before it adequately addresses the needs of SME IP owners. Having a specialist IP judge is seen to be an essential component of future reform in the judiciary.

Although the PC has rejected the creation of a court along the lines of the UK's IP Enterprise Court, FICPI Australia struggles to understand the logic in not adopting a formula that has proven to be successful in the UK sharing the same common law system and a similar, contemporary dedicated IP court that serves the interests of Australian industry, which has been borne out of much trial and experimentation over more than two decades in the UK.

While the recent self-initiated reforms of the Federal Court are laudatory, they still fall a long way short of the procedures and operations adopted by the IP Enterprise Court of the UK. Please refer to our submission under Section 18 for more details regarding this.

- Changes to the Federal Circuit Court are one option for improving dispute resolution options for small- and medium-sized enterprises.

FICPI Australia agrees with this point, to the extent that dispute resolution options are beneficial for small-and medium-sized enterprises. It should form part of the avenues available for IP owners, alleged IP rights infringers and the public to settle IP disputes. The PC should consider improvements to dispute resolution by creating a sophisticated arbitration and mediation forum where mediators are well versed with the IP system. However, dispute resolution mechanisms based on arbitration and mediation (and others) should not entirely replace the adversarial judicial process.



- E) Multilateral and bilateral trade agreements are the primary determinant of Australia's IP arrangements. These agreements substantially constrain domestic IP policy flexibility.

FICPI Australia disagrees with this point. While Australia is subject to multilateral and bilateral trade agreements, there is ample opportunity for Australia to customise its IP laws to suit domestic IP policy. The introduction of the innovation patent system is a case in point, where its introduction was intended to serve the interests of Australian SMEs and provide an alternative to the rigid standard patent system, which was expensive for SMEs to access.

Australia operates in a global marketplace and the benefits for originators and creators of IP's rights in Australia to properly take advantage of the rights made available to them and value add to the Australian economy requires the extension and access of these rights in overseas countries and regions. The fact that Australian innovators do not fully take advantage of this is not a problem of the IP system, rather it is a lack of education and knowledge on how to use the existing IP system for their own benefit and the benefits that can flow from it to the Australian economy. Therefore, there is a fundamental requirement that the IP system in Australia be harmonised with the IP systems of overseas countries to facilitate the extension and obtainment of IP rights by Australian companies in overseas countries based upon their Australian IP rights and minimise their expenditure in attending to this.

Furthermore, Australia does benefit from the inflow of products and services into this country from overseas, where more sophisticated and higher-level technology can be viably developed and commercialised, where it cannot be undertaken in Australia for a variety of reasons. Therefore it is necessary for Australia to have an IP system that is also conducive to the interests of overseas originators and innovators, but which provides an opportunity for Australian industry to access and participate in easily.

- An overly generous system of IP rights is particularly costly for Australia — a significant net importer of IP, with a growing trade deficit in IP-intensive goods

FICPI Australia disagrees with this point in so far as it applies to patents, trade marks and designs. Statistically, the volume of overseas patents being sought and obtained in Australia by overseas entities is dropping for the reason that Australia no longer features as a viable market to justify the obtainment of IP rights.

It is the experience of many of our members engaged with overseas IP service providers and participating in international IP fora that a perception held by many overseas entities is that Australia is largely a primary industry country with its major industries being in agriculture and mining. This coupled with the fact that Australia has a relatively small population and marketplace means that most overseas corporates do not include Australia in their filing program. This means that there already exists a large volume of valuable IP rights granted in major countries and regions such as Europe, Japan, China and USA and not in Australia, which is freely available to be copied and commercially exploited in Australia without any IP restraint.

Why does Australian industry not take up the opportunity of directly copying or developing follow-on innovations to this IP?

It is FICPI Australia's view that the reason lies more in the fact that Australian industry is not sufficiently competitive and is not prepared to take up opportunities where there is no



IP barrier other than the presence of a competitive product due to the barriers that exist to marketplace entry, which have nothing to do with the IP system. FICPI Australia considers that it is the production and marketing cost that a start-up must face and crossing the aptly termed “Valley of Death” to successful commercialisation of a product or service that presents the greatest barrier to market place entry and not the existence of IP rights dominated by overseas entities.

- The Australian Government should focus its international IP engagement on encouraging more balanced policy arrangements for patents and copyright,

FICPI Australia agrees with this point, and considers that that international IP engagement can really only be achieved by creating greater harmony in the IP systems and laws between Australia and its trading partners, which comes about through multilateral and bilateral trade agreements.

- Improving the evidence base and analysis that informs international engagement (especially trade agreements with IP provisions) would help the

FICPI Australia agrees with this point.



DRAFT RECOMMENDATIONS, FINDINGS AND INFORMATION REQUESTS

Chapter 2: The analytical framework

DRAFT RECOMMENDATION 2.1

In formulating intellectual property policy, the Australian Government should be informed by a robust evidence base and have regard to the principles of:

- *effectiveness*, which addresses the balance between providing protection to encourage additional innovation (which would not have otherwise occurred) and allowing ideas to be disseminated widely
- *efficiency*, which addresses the balance between returns to innovators and to the wider community
- *adaptability*, which addresses the balance between providing policy certainty and having a system that is agile in response to change
- *accountability*, which balances the cost of collecting and analysing policy-relevant information against the benefits of having transparent and evidence-based policy that considers community wellbeing.

FICPI Australia has no objection to the Australian government being informed in formulating intellectual property policy according to the above principles, except that with respect to effectiveness, we see no reason for the qualification that the additional innovation be of a nature that would not have otherwise occurred. This would appear to be a self-serving qualification for those employed in funded research, but is hardly representative of all effective innovation. How can one ascertain whether an innovation would otherwise have occurred, before it has in fact occurred, and further why should effectiveness of IP policy be limited only to such innovations? There would appear to be a suggestion that only innovations that arise due to there being an IP system are effective innovations, and all other innovations are not, which in our view is abjectly wrong.

The IP system is based upon rewarding the first person to create or originate IP not only for the purposes of bringing knowledge of the innovation into existence for the betterment of further research and development and follow-on innovations, but also to enable fair and reasonable commercial exploitation of the innovation by the creator or originator, which can add value to the economy. This can be done not only by exploiting the innovation in Australia, but also by leveraging the IP right in Australia and extending it to overseas countries where the benefit of exploitation in overseas markets can flow back to the Australian economy i.e. by way of export.



Chapter 6: Patent system fundamentals

DRAFT RECOMMENDATION 6.1

The Australian Government should amend ss. 7(2) and 7(3) of the *Patents Act 1990* (Cth) such that an invention is taken to involve an inventive step if, having regard to the prior art base, it is not obvious to a person skilled in the relevant art.

The Australian Government should state the following in the associated Explanatory Memorandum:

- the intent of this change is to better target socially valuable inventions
- the test should be applied by asking whether a course of action required to arrive at the invention or solution to the problem would have been obvious for a person skilled in the art to try with a reasonable expectation of success.

The Australian Government should explore opportunities to further raise the overall threshold for inventive step in collaboration with other countries in international forums.

FICPI Australia disagrees that there is a need to amend the Patents Act insofar as inventive step is concerned. As has been observed by Lord Diplock in *Johns-Manville Corp's Patent [1967] RPC 479 at 493-494, one should refrain from coining a definition of "obviousness" as it is doubtful that there is any verbal formula which is appropriate to all classes of claims.*

The test suggested to be included in the Explanatory Memorandum, namely "asking whether a course of action required to arrive at the invention or solution to the problem would have been obvious for a person skilled in the art to try with a reasonable expectation of success" is a really only applicable to certain types of inventions where long experiments and deep research is required to arrive at the invention, which typically occurs in chemical cases where the combination of different chemicals or molecules may produce different results which are entirely unpredictable. However, this is not the case in relation to certain engineering related inventions, where a valuable invention may be happened across per chance. The matter is well explained in the decision of the majority of the High Court in *Aktiebolaget Hässle v Alphapharm Pty Ltd [2002] HCA 59 at [38], discussing the fact that not all inventions are to be classified as successful solutions to a problem which had presented a "long-felt want" and that inventions can also arise in the case of an "unfelt want" and which may well involve an inventive step.*

Consistent with this line of reasoning, as is the case with the legislative specification of inventive step in the patent statutes of our major trading partners as illustrated in Box 6.4 of the Draft Report, it is notable that a less prescriptive approach has been adopted in the case of all countries and Europe, indicating a desire to leave the determination of what constitutes an inventive step to case law.

Furthermore, can see no reason why the Patents Act should be changed to target socially valuable inventions. What may not be considered to be a socially valuable invention one day may in fact become a socially valuable invention another day. Inventions and innovation are market-driven, where there is a perceived need for the invention. FICPI Australia considers it better for the market or where there is a perceived need for an invention that will bring about a market to be satisfactory drivers, and the patent system remain neutral to provide the relevant protection where sought.



The above aside, FICPI Australia cannot see how the current specification of the law for inventive step leads to any “low value” patents being granted in any event, where the test for obviousness already provides a barrier to valid patents being granted for trivial or obvious inventions. FICPI Australia considers that the problems identified with the existing test as referred to within the PC report are very much exaggerated and wrongfully target the elimination of so-called “low value” patents, deeming them to be an impediment to follow-on innovation. However, as indicated in our comments to Chapter 3, it appears that the PC considers any innovation that is the subject of a patent, whether it be genuinely new and valuable or not, which would not have occurred if not for the existence of, in this instance, the patent system, is a “low value” patent, whereas in fact there is no evidence to support this highly subjective view at all.

Therefore, FICPI Australia considers that the entire thrust of the PC view to raise the threshold of inventive step in not only Australia, but also globally, is based entirely on a false premise as to what is a “high value” patent and what is a “low value” patent.

Further, FICPI Australia considers that the PC has misinterpreted the law and the ‘scintilla’ of invention requirement as being a quantitative test for inventive step, whereas in fact the law in respect of inventive step at all times has required it to be a qualitative test as to whether the invention is obvious or not.

DRAFT RECOMMENDATION 6.2

The Australian Government should incorporate an objects clause into the *Patents Act 1990* (Cth) (Patents Act). The objects clause should describe the purposes of the legislation as being to enhance the wellbeing of Australians by providing patent protection to socially valuable innovations that would not have otherwise occurred and by promoting the dissemination of technology. In doing so, the patent system should balance the interests of patent applicants and patent owners, the users of technology — including follow-on innovators and researchers — and Australian society as a whole.

The Australian Government should amend the Patents Act such that, when making a decision in relation to a patent application or an existing patent, the Commissioner of Patents and the Courts must have regard to the objects of the Patents Act.

FICPI Australia considers that an objects clause of the type described in the above recommendation would only cause confusion in ascertaining precisely what is “socially valuable”. “Socially valuable” is a highly subjective term, which would lead to serious conjecture depending upon whose perspective one was to adopt and therefore should not be introduced into the Patents Act.

At the outset, it would be a patent examiner that would need to assess what is “socially valuable” in their opinion, which could well range from examiner to examiner, especially given that examiners have a strong scientific and technical background, as opposed to a consumer oriented background. The Myriad High Court decision is a case in point, where uncertainty was introduced into the IP system bringing ethical considerations into what should have been a technical assessment of whether an invention fell under well-established patentability tests or not.

As indicated in our comments in response to Draft Recommendation 6.1, we consider it best that the Patents Act remain neutral in terms of its object, and allow the market, or where there is a perceived need for an invention, to naturally dictate the types of inventions



applicants aspire to patent and those which they do not, as long as the invention is in the field of economic endeavour.

The view of FICPI Australia is that business requires certainty and predictability of outcomes with respect to its IP system, where an IP system is a commercial tool and not a tool for social engineering. Anything that reduces predictability and creates uncertainty is bad for business investment considerations in relation to innovation.

DRAFT RECOMMENDATION 6.3

The Australian Government, with input from IP Australia, should explore the costs and benefits of using higher and more pronounced renewal fees later in the life of a standard patent, and making greater use of claim fees to limit the breadth of patent protection and to reduce strategic use of patents.

The Australian Government should seek international cooperation on making greater use of patent fees to help ensure that patent holders are not overcompensated and to limit the costs of patent protection on the community.

FICPI Australia disagrees with the recommendation. The Australian economy does not run in isolation from the rest of the world but is part of it. Many Australian innovators, in order to properly exploit their IP rights and value add to the Australian economy, are compelled to obtain their IP rights in overseas jurisdictions as well as in Australia, due to the small market of Australia. The reality is that the Australian market, even for a local innovator with valuable IP, is not their main market. The US, European and Asian markets are far larger, so getting traction in these overseas markets is the ultimate objective. This is reflected in the PC's analysis of patent filing numbers by Australian entities in Australia and overseas. Consequently, the cost of paying renewal fees on an annual basis in multiple jurisdictions is a major impost for an innovator holding patents in many countries and/or regions, especially an SME, and therefore anything that can be done to reduce the cost of this to Australian IP owners would be of benefit.

FICPI Australia observes that the Australian Patents Act already has a staged increase in renewal fees, making them more expensive than in New Zealand and USA. The existing cost of renewal fees is already a significant deterrent to maintaining patents that are only of value to the patentee.

Claims being made by the PC as to the problems with maintaining granted patents in Australia appear to be very exaggerated and biased against the granting of patents, and are in favour of follow-on innovators or copiers, who do not have the cost burden of development, market establishment and patenting expenses to incur when entering the market.

The above said, FICPI Australia does not have a problem with investigating high renewal fees later in the life of a patent, although a balance needs to be struck between small and large entities involved with exploiting the patent, since larger fees would be an obvious deterrent for a smaller entity that takes longer to achieve the economies of scale necessary for the return on investment necessary in bringing an innovation to market, than would be the case with a larger corporation.

With respect to claims fees, FICPI Australia considers that Australia should be working towards a system of international harmonisation, whereby excess claims fees are charged in a consistent manner across the world, rather than on an ad hoc basis that exists at the



present time. Indeed, more consideration should be given as to the appropriate time to charge such fees, for example at a time prior to examination so that they relate to examination, where applicants have an opportunity to amend the claims beforehand in order to minimise the fees.

In the case with Australia at present, where claims fees are charged at acceptance, FICPI Australia considers that it would be better to charge for these at or around the time of requesting examination.

Chapter 7: Innovation patents

DRAFT RECOMMENDATION 7.1

The Australian Government should abolish the innovation patent system.

FICPI Australia strongly disagrees with this recommendation and believes that the reasons for the abolishment are based upon incorrect and misinterpreted data in the ACIP report as pointed out by FICPI Australia in its response to that report.

FICPI Australia considers that the innovative test is pitched at the right level for the standard of innovation in Australian industry at the present time that makes a valuable contribution to the economy and that the shorter lifetime of eight years is an adequate trade-off against the lower threshold test for patentability.

The innovative step test provides a more realistic view of where innovation lies in the Australian economy. It is easy to be misled into believing that where high level education in universities is pitched, as well as cutting-edge research and development in the public sector and by large government organisations such as CSIRO, is representative of where the majority of Australian industry in the private sector are contributing to the economy. Unfortunately, the reality does not meet the perception and Australian industry serving the Australian market typically operates at a much lower level compared to where the cutting-edge research and innovation in the world lies. The fact is that the Australian economy is not sufficiently large to support the development and manufacture of mass produced products and methodologies that enter our marketplace for consumption. These mainstream products and services are developed and manufactured overseas in large volume by large corporates and multinationals to serve a global market, of which Australia comprises only a small part.

The report suggests that the dominance of large overseas corporates and multinationals in the Australian marketplace at the expense of Australian industry is a bad thing and that there should be improved engagement of Australian corporations and SMEs in the marketplace. The fact is that Australian industry can only realistically participate in the supply chain at a relatively low level, where the degree of invention is relatively low.

FICPI Australia considers that the innovation patent system is perfectly pitched to provide short-term rights to serve Australian industry, where the validity of the right is only examined or tested when needed. This represents a significant cost saving to Australian industry in being able to obtain IP rights and use them to the extent necessary in order to insure against unfair competition to a least some extent and protect against the investment risk necessary to develop an innovation and proceed down the commercialisation path and enter the marketplace with an innovative product or process.



Unfortunately, there is a lethargy with Australian industry adopting IP rights in the first place, so the realisation of the benefit of the innovation patent system has taken some time to gain traction.

FICPI Australia considers the trade-off in duration of term compared to a standard patent on the one hand and the lower threshold requirement to innovative step to be a reasonable balance, and cannot see any economic or other reason to dispense with the system.

Chapter 8: Business methods and software patents

DRAFT RECOMMENDATION 8.1

The Australian Government should amend s. 18 of the *Patents Act 1990* (Cth) to explicitly *exclude* business methods and software from being patentable subject matter.

FICPI Australia strongly disagrees with the recommendation. FICPI Australia considers that the PC analysis of the perceived problem with business methods and software in Australia is flawed for the reasons outlined under section 8 of the Key Points.

In any event, it has always been the case under Australian patent law that software per se and business methods in the form of schemes are not patentable eligible subject matter. So the law is already clear on this and FICPI Australia would counsel against any tampering with the existing wording of section 18.

Chapter 9: Pharmaceutical patents

DRAFT RECOMMENDATION 9.1

The Australian Government should reform extensions of patent term for pharmaceuticals such that they are calculated based only on the time taken for regulatory approval by the Therapeutic Goods Administration over and above one year.

FICPI Australia strongly disagrees with the recommendation that the Australian Government should reform extensions of patent term for pharmaceuticals such that they are based only on the time taken for regulatory approval by the TGA over and above one year.

In making this recommendation the PC does not seem to recognise that the period of consideration of an application for regulatory approval in Australia by the TGA is only a minor contributor to the delay in bringing a product to market. The most significant delays in bringing a product to market are generally associated with the conduct of clinical trials. Such clinical trials are of course conducted in order to meet the regulatory requirements imposed on the originator by the TGA and by other pharmaceutical regulatory authorities. As the PC will understand, safety of a therapeutic good is generally determined at an early stage in the pharmaceutical development pathway (phase 1 clinical trials). Phase 1 clinical trials are conducted in a small number of patients and are generally relatively quick and inexpensive. Following a phase 1 clinical trial it will be established that the drug in question is safe for human administration, within particular dosage parameters. Therefore, in terms of eliminating risk associated with potential product liability claims by consumers a pharmaceutical company will be well placed after completion of the phase 1 clinical trials.



However, in order to be authorised to make claims as to the health benefits of a particular pharmaceutical substance, significantly larger scale, more costly and time consuming phase 2 and 3 clinical trials must be conducted. The requirement to conduct such studies is imposed on originator pharmaceutical companies by the regulators, and in the case of Australia, by the TGA. Although the delay associated with conducting the clinical trials is not part of the time of consideration by the TGA of the product dossier it is necessary for the originator pharmaceutical company to generate the information in the product dossier that is derived from the clinical trials before the application for listing in the Australian Register of Therapeutic Goods (ARTG) can be submitted to the TGA. It is the conduct of these necessary clinical trials that constitutes the most significant aspect of the delay in bringing the product to market, and which results in the greatest reduction in the effective term of patent protection. It is this aspect of the “regulatory delay” that the pharmaceutical extension of term system is primarily intended to compensate for.

DRAFT RECOMMENDATION 9.2

Regardless of the method of calculating their duration (draft recommendation 9.1), extensions of term in Australia should only be granted through a tailored system which explicitly allows for manufacture for export in the extension period.

In the context of our comments above FICPI Australia believes that the recommendation to limit pharmaceutical patent term extensions to be based only on the time taken for regulatory approval by the TGA over and above one year makes no practical sense and would result in a significant reduction in the effective patent term for pharmaceutical patents in Australia. FICPI Australia believes this would be very likely to result in important new medicines not being introduced onto the Australian market.

DRAFT RECOMMENDATION 9.3

There should be no extension of the period of data protection, including that applicable to biologics.

Further, in the context of international negotiations, the Australian Government should work with other nations towards a system of eventual publication of clinical trial data in exchange for statutory data protection.

FICPI Australia sees no compelling reason for Australia to move away from the present extension of term system for pharmaceutical patents to adopt a sui generis form of protection. FICPI Australia is also of the view that as a result of Australia’s adoption of both international and bi-lateral treaties Australia is not in a position to move to a system that would allow for manufacture of pharmaceuticals for export during a period of extension of the normal patent term.

FICPI Australia does not oppose this recommendation, on the assumption that any publication of clinical trial data does not take place until periods of data protection in other jurisdictions have expired.



DRAFT RECOMMENDATION 9.4

The Australian Government should introduce a transparent reporting and monitoring system to detect any pay-for-delay settlements between originator and generic pharmaceutical companies. This system should be administered by the Australian Competition and Consumer Commission.

The monitoring should operate for a period of five years. Following this period, the Australian Government should institute a review of the regulation of pay-for-delay agreements (and other potentially anticompetitive arrangements specific to the pharmaceutical sector).

FICPI Australia is not opposed to the recommendation to introduce a transparent reporting and monitoring system to detect any pay for delay settlements between originator and generic pharmaceutical companies, with the system to be administered by the Australian Consumer and Competition Commission (ACCC), which would reply upon the Competition and Consumer Act to make assessments as to whether anti-competitive behaviour has taken place.

However, the challenge with this recommendation is that such a system would need to be carefully designed to minimise compliance costs for the industry and to avoid unintended consequences. For example, the current requirement for patentees of extended patents to lodge a return under S. 76A of the Patents Act 1990 is an example of a poorly constructed reporting requirement, where as a result there is great uncertainty around the nature of returns that need to be submitted, which gives rise to inconsistency in the information included in filed returns. The submitted data is therefore of next to no value in determining the benefits of the extension of term system.

As to unintended consequences, it is worth noting that many patent disputes between originator and generic companies are ultimately settled by the parties. This not only results in significant savings of internal resources and legal costs by the parties, but also leads to a reduction in the use of busy court resources. Even if settlement agreements do not involve what might be considered as “pay for delay provisions” it is likely that there will be reluctance by parties to disclose settlement agreements to the ACCC. For example, an originator company may be concerned that possible leakage of terms of a settlement agreement to the public could make it vulnerable to attack by other competitors in relation to different products. A reluctance to disclose settlement agreements to the ACCC could give rise to patent disputes proceeding to trial rather than being settled earlier.

DRAFT RECOMMENDATION 9.5

The Australian Government should reform s. 76A of the Patents Act 1990 (Cth) to improve data collection requirements. Thereafter, extensions of term should not be granted until data is received in a satisfactory form.

After five years of data has been collected, it should be used as part of a review to consider the ongoing costs and benefits of maintaining the extension of term system.

As noted in the PC draft report the current S.76A return system is contributing to unnecessary compliance costs for no discernible benefit, which is in large part due to the poor implementation of the provision and the lack of guidelines for compliance by



patentees. This is unfortunate, as there was a great opportunity at the time of implementation of the S.76A provision to capture useful data that could have been an indicator as to the value of the extension of term system. However, despite the problems in implementation, the system could only ever have been useful if equivalent data was gathered for a period of years prior to the implementation of the extension of term system. Given that we have now had an extension of term system in place for many years it is difficult to see how introduction of a better defined data collection system can provide an indicator as to the benefits of the extension of term system, as there is no baseline comparator data available.

FICPI Australia also has serious concerns about the introduction of additional compliance costs to firms operating in the pharmaceutical industry. Before imposing any additional compliance costs upon industry FICPI Australia would need to be convinced that there is a clear objective in collecting the data that is proposed to be gathered and the data to be collected will meet this objective. If it is the intention that collected data would enable a measurement of the value of the extension of term system then we question how such an assessment can be made without the existence of baseline data. Alternatively, if the objective is to better understand the nature and extent of pharmaceutical R&D expenditure conducted in Australia then we expect that Government, through the Australian Taxation Office, can already collate such information on the basis of R&D tax incentive submissions.

Chapter 10: Registered designs

DRAFT RECOMMENDATION 10.1

Australia should not join the Hague Agreement until an evidence-based case is made, informed by a cost-benefit analysis.

FICPI Australia agrees with the general recommendation that Australia defer accession to the Hague Agreement for the present time. This is primarily on the basis of the current problems identified in the report arising from the lack of harmonisation in filing requirements, which, as noted, not only makes any gains arising from a single application process illusory and confusing, but may also result in filing errors which cannot be corrected further down the track resulting in irrevocable loss of rights. Please refer to our further submission under Key points.

DRAFT FINDING 10.1

Despite the deficiencies of the registered design system, Australia has committed internationally to protecting designs and there is no clear superior alternative.

FICPI Australia agrees with this finding. However, in order to be consistent with the international norm in relation to the term of registered designs, where there is a tendency towards longer term duration than shorter term, FICPI Australia recommends that the term of a registered design in Australia be extended to at least 15 years as opposed to the current 10 year period.

Furthermore, in order to encourage greater use of the designs system, and to ensure against a high level of invalidity arising from the likely publication of a design prior to the filing of an application for registration, a grace period provision should be introduced.



Chapter 11: Trade marks and geographical indications

DRAFT RECOMMENDATION 11.1

In order to improve the effectiveness of the trade mark system, the Australian Government should:

- restore the power for the trade mark registrar to apply mandatory disclaimers to trade mark applications, consistent with the recommendation of the Advisory Council on Intellectual Property in 2004

FICPI Australia agrees that disclaimers should be required when absolutely necessary because they are an effective way to demarcate registration rights from the perspective of both trade mark owners and third parties. FICPI Australia notes, however, that implementation of mandatory disclaimers across the board does not add any value to trade marks and may detract from the efficiency of the examination and registration system. For example, undue and unnecessary argument may arise during examination as to whether an element of a mark should be disclaimed or not, whereas in fact it makes little or no consequence to the scope and effect of the trade mark in terms of infringement. Therefore FICPI Australia agrees that mandatory disclaimers should only be applied when it is obvious that the element of the mark disclaimed is clearly unregistrable in its own right.

FICPI Australia also considers that the PC's view on the introduction of mandatory disclaimers functioning to declutter the register to be misplaced. Under the previous law providing for disclaimers, a disclaimer did not have any effect in altering the actual legal scope of a registered mark. The disclaimer functioned merely as a tool to alert that sector of the public who were not knowledgeable of trade mark law that registering a trade mark including an obviously unregistrable component, did not provide exclusive rights to the use of the unregistrable component per se, something that any trade mark practitioner would ordinarily know. Hence the scope of the mark was still limited to the distinctive representation of the mark as a whole.

Therefore the re-introduction of mandatory disclaimers, in our view, would have no decluttering effect whatsoever. The cluttering problem comes about from the change in having to precisely specify the goods and services in a trade mark registration, the excessive use of alternative phraseology used in the pick list to describe in effect the same good or service, the inconsistencies between the pick list and the International Classification system adopted in most other countries, and the extraordinary overlap that exists between the classes for goods and services of the same description.

- repeal part 17 of the *Trade Marks Act 1995* (Cth) (Trade Marks Act)

FICPI Australia disagrees with the recommendation –there is no evidence to suggest that defensive trade marks are problematical or contribute to cluttering of the Register. FICPI Australia does not agree with the recommendation. The presumption of registrability confers jurisdiction on the Federal Magistrates Court to hear and determine trade marks matters. Changing s43 of the Act will not necessarily prevent trade marks from being

- amend s. 43 of the Trade Marks Act so that the presumption of registrability does not apply to the registration of marks that could be misleading or confusing

registered because there are many reasons and factors that determine whether a trade



mark can be registered. This change only hinders and makes the process of registration longer rather than act as a deterrent.

Further there is nothing to suggest that the introduction of the presumption of registrability has had any significant impact on the practice of the Trade Marks Office. It has not been applied in a way that significantly improves the prospect of registration, where trade mark examiners still need to be satisfied that there is no lawful ground for objection to registration.

- amend the schedule of fees for trade mark registrations so that higher fees apply for marks that register in multiple classes and/or entire classes of goods and services.

FICPI Australia considers that there is little evidence to suggest amending the schedule of fees in trade mark applications will deter applicants from seeking registration. It only creates an additional impost on applicants, which is born heavier by SMEs. Adopting the current classification system creates significant inequities depending upon the particular goods or services that a registrant trades in. One business sector can easily fall within the scope of a single class, whereas another similarly narrow business sector can fall within 10 classes due to the arbitrary division between the classes. This unfairly discriminates against the person trading in a business sector that coincidentally is not addressed well under the trade marks classification already, without adding a further cost burden that further prejudices them.

FICPI Australia urges the PC to rethink the problem and avoid adopting inequitable policy changes using fee increases that clearly discriminate against particular sectors of industry for no reason other than an administrative decision.

IP Australia should:

- require the Trade Marks Office to return to its previous practice of routinely challenging trade mark applications that contain contemporary geographical references (under s. 43 of the Trade Marks Act). Challenges would not extend where endorsements require goods and services to be produced in the area nominated

FICPI Australia agrees that the practice of the Trade Marks Office should more closely reflect Australian Consumer Law in relation to trade marks incorporating geographical references.

- in conjunction with the Australian Securities and Investments Commission, link the Australian Trade Mark On-line Search System database with the business registration portal, including to ensure a warning if a registration may infringe an existing trade mark, and to allow for searches of disclaimers and endorsements.



FICPI Australia agrees with the recommendation.

DRAFT RECOMMENDATION 11.2

The Australian Government should amend s. 123 of the Trade Marks Act 1995 (Cth) to ensure that parallel imports of marked goods do not infringe an Australian registered trade mark provided that the marked good has been brought to market elsewhere by the owner of the mark or its licensee. Section 97A of the Trade Marks Act 2002 (New Zealand) could serve as a model clause in this regard.

FICPI Australia disagrees with this recommendation. The reality is that trade mark owners have contractual obligations which may effectively prevent the sale of goods into the Australian market and that goods manufactured in accordance with the requirements and standards of one market will not necessarily be suitable for sale in Australia.

Chapter 12: Plant Breeder's Rights

DRAFT RECOMMENDATION 12.1

The Australian Government should proceed without delay to implement the Advisory Council on Intellectual Property 2010 recommendation to amend the Plant Breeder's Rights Act 1994 (Cth) to enable essentially derived variety declarations to be made in respect of any variety.

FICPI Australia agrees with the recommendation.

Chapter 15: IP and public institutions

DRAFT RECOMMENDATION 15.1

All Australian, and State and Territory Governments should implement an open access policy for publicly funded research. The policy should provide free access through an open access repository for all publications funded by governments, directly or through university funding, within 12 months of publication. The policy should minimise exemptions.

The Australian Government should seek to establish the same policy for international agencies to which it is a contributory funder, but which still charge for their publications, such as the Organisation for Economic Cooperation and Development.

FICPI Australia supports this recommendation, at least in so far as it applies to scientific research funded solely by governments, to the extent that it only proposes providing free access to all published results of such research within 12 months of the publication, without any restriction on when that publication occurs.

It is important that scientific researchers be free to choose when to publish the results of their research, to ensure they retain the option to seek IP protection. The grace period provisions of the Patents Act do provide some degree of a safety net against publication before seeking patent protection, but the safety net is very limited as it does not apply to all forms of IP protection and even for patent protection does not apply in all overseas countries. For example, a grace period is not part of the European patent regime. As a result FICPI Australia recommends only ever relying on the Australian grace period provisions as a fall-back, when publication occurred inadvertently prior to filing a patent application.



Generally, delaying publication until a patent application has been filed will not substantially hold up the publication. The requirement to be the first to file a patent application for a particular invention in order to secure patent protection applies pressure to file quickly.

FICPI Australia notes that where scientific research is jointly funded by public and private entities, which appears to be the norm today in most if not all research institutions in Australia, the private entity may wish to have some control over access to the published results of the research – with the effect that the PC’s Draft Recommendation 15.1 may have limited scope.

Chapter 16: Institutional and governance arrangements

DRAFT FINDING 16.1

Model agreements on intellectual property would have the benefit of being fully transparent to Australian industry and to the broader community, as well as to foreign governments, so that all stakeholders are aware of what Australia sees as the ideal outcomes from a treaty.

FICPI Australia has no objection to the finding.

Chapter 17: International cooperation

DRAFT FINDING 17.1

Approaches to international cooperation and lowering transaction costs will be most effective when pursued multilaterally rather than through bilateral arrangements. Moreover, harmonisation of laws is not the sole, or necessarily desirable, form of cooperation. Other approaches to international intellectual property cooperation can achieve their goals at lower cost and with greater flexibility

FICPI Australia has no objection to the finding, and supports the view that total IP harmonisation at the expense of losing domestic policy flexibility is not in the interests of Australian citizens and industry. However, FICPI Australia is supportive of harmonisation to a reasonable extent that dispenses with duplication of formality matters that add to the expense of Australian and other applicants seeking IP rights in other countries. Maintaining a degree of discretion to formulate IP policy and systems to suit its own nationals, while maintaining equal treatment for all users of the system is a desirable outcome.

DRAFT RECOMMENDATION 17.1

Australia should revive its role in supporting opportunities to promote global cooperation on intellectual property policy among intellectual property offices through the World Intellectual Property Organization and the World Trade Organization to avoid duplication and reduce transaction costs.

FICPI Australia supports this recommendation.



Chapter 18: Compliance and enforcement

DRAFT RECOMMENDATION 18.1

The Australian Government should expand the safe harbour scheme to cover the broader set of online service providers intended in the Copyright Act 1968 (Cth).

FICPI Australia supports this recommendation, noting that safe harbour schemes do not necessarily provide an absolute defence to infringement, as they impart certain obligations on service providers (such as an obligation to remove infringing content, then give written notice).



REQUESTS FOR FURTHER INFORMATION

INFORMATION REQUEST 6.1

The Commission is seeking further information from participants on the likely costs and benefits from reforming patent filing processes. Would there be any unintended consequences from requiring applicants to construct their claims in the two-part form that applies in Europe or articulating why their invention is non-obvious? Are there better approaches available?

FICPI Australia does not support the introduction of two-part claims in Australia. The two-part claim system is an antiquated system that was originally introduced to assist patent examiners in conducting prior art searches. The adoption of the abstract now serves this purpose. The fact that inventions largely involve multiple elements, where the inventive step oftentimes lies in the combination of these elements does not lend itself to being written up in the two-part claim style.

The interpretation of the scope of a claim can be an evolutionary and dynamic thing, depending upon what becomes known as prior art after the patent is granted, which was not known to be prior art before the granting of the patent. A common problem is that it is all too easy for outsiders to apply ex post facto analysis of a patent claim after certain prior art becomes known, well after the time that the patent claim was drafted.

FICPI Australia considers that the European system (and techniques and procedures evolved under it) is far from an idyllic system and certainly is not the appropriate system to adopt for a common-law country, such as Australia.

Claim drafting techniques evolved under common-law systems such as in Australia in the UK to deal with problems of claim construction and interpretation in the light of prior art coming to the fore after the grant of the patent, in the view of FICPI Australia, are far superior to antiquated European techniques that have evolved from dealing with a turgid and unduly codified civil law system. FICPI Australia considers it better to adopt modern drafting techniques that have evolved under the common law backdrop and flexibility provided by the Australian, Canadian and US systems, rather than the formulaic approach adopted by civil law countries. Given the fact that Australia is a common law country, FICPI Australia considers it to be a regressive to adopt inflexible and unduly formulaic approaches that we see in civil law countries.

While in theory it would be beneficial to articulate why one's invention is non-obvious at the outset, especially under the concept of common general knowledge that applies under Australian law, which the hypothetical and inventive skill addressee has at their possession, we consider it to be an undue onus to require an applicant to ascertain what the state of common general knowledge is in the art before drafting their patent specification in order to determine precisely what is nonobvious and what is obvious. Indeed, arriving at a conclusion as to what is nonobvious and what is obvious requires quite considerable expert evidence to be adduced, which is not available to the average applicant.

While in litigation this may be an appropriate burden for the patentee to bear in enforcing their patent against an infringer, FICPI Australia considers it to be an unreasonable burden upon every applicant to bear at the outset when drafting a patent specification and would add significantly to the costs associated with the preparation of patent specifications making the system unwieldy and unusable.



FICPI Australia further highlights the experience of its member patent attorneys, who are the primary experts in dealing with inventors and innovators at the outset of the creation of an invention or innovation and drafting patent specifications at this early stage, inventors and innovators do not view their inventions or innovations in the same clinical and clearly defined and described manner as they are expressed in a patent specification. The skill of a patent attorney is to translate and transform what can be a very low level expression of a product or method, or on the other hand a very high level expression of a product or method, by the inventor or innovator, who has no cognizance at all of what is novel or inventive about the product or method, and where the existence of those aspects of the invention or innovation that may be patentable are well disguised, into a clear, recognisable and concise description and definition of the invention or innovation.

Therefore FICPI Australia cautions those who are looking at patent specifications and claims after the fact, and who have little or no comprehension of the difficulties and expense entailed with the drafting of such documents at the outset, from creating additional, and in our view, unnecessary criteria and standards for patent attorneys and applicants to meet when drafting patent specifications beyond those that already exist, which are virtually impossible to meet without incurring inordinate time and thus major expense to the applicant. We consider this to be totally averse to the interests of Australian industry.

INFORMATION REQUEST 6.2

The Commission is seeking information from participants on the costs and benefits of an exemption from infringement for experimental activities that use a patented invention. Are there any examples in Australia where the efforts of researchers have been hindered by the lack of such an exemption?

FICPI Australia is not aware of any examples where the efforts of researchers have been hindered or the lack of such an exemption, although this does not mean that they do not exist. In general, however, FICPI Australia queries the Constructive Notice of introducing such an exemption, where there is an existing market for research tools for dealing with research requirements in a manner that does not infringe an existing patent, but which falls within the newly introduced experimental use infringement exemptions, which appear to deal adequately with the problem.

INFORMATION REQUEST 8.1

What approaches or tests could be used to differentiate between inventions where the contribution of embedded software is trivial and inventions where the contribution of embedded software is genuinely deserving of patent protection? Should such tests be implemented in law or patent examination practices?

FICPI Australia considers the entire question of breaking an invention down that includes software to a consideration of whether the software is embedded or not, or is trivial or not, to be entirely misplaced and represents a complete misunderstanding of what constitutes patent eligible subject matter under the law in Australia.

An invention needs to be looked at in its entirety, and in the case of an invention including software, includes the contribution made both by hardware and software to constitute a computer-related invention.



As was concluded in the RPL Central case, where leave to the High Court to hear the case was refused, one cannot simply rely upon the fact that because computer hardware is included in the invention, that this makes the invention patent eligible per se. The issue is now clear and FICPI Australia cannot understand why there seems to be a continual need to dissect the software component of an invention to ascertain whether the invention is patentable or not.

The problem with much of the litigation that has been pursued in the USA and Australia for software related inventions, is that many of the inventions sought to be patented have been bad for the reason that the applicants have been seeking patents for what amount to be computed disguised business schemes or ideas implemented in a known computer-related environment or system. While there is some evidence that certain courts have got this wrong, it now appears to be relatively clear that the courts have determined that these types of inventions are not eligible for patent protection.

FICPI Australia considers that the right question to be asking is whether any test can be devised to determine at what point does an innovation transition from being an abstract idea to an invention capable of being patented, rather than going into isolating different types of software and ascertaining their working interrelationship with hardware as to whether they are patent eligible or not.

It is beyond debate that many computer-related inventions including software are quite deserving of patent protection, make a significant contribution to the Australian economy, and if it was not for patent protection would not have been able to be produced and get to market.

We consider that much of the PCs conclusions are based on a false premise about what is patent eligible subject matter in the realm of business methods and software and what is not, is skewed to serving only one industry sector that makes up a very small component of the total software industry, and does not take into account the true barriers to market entry and capital raising confronted by not only start-ups and SMEs, but all types of innovators, small to large.

FICPI Australia asserts that with respect to open source, it is not opposed to the open source community and sees tremendous value in its existence and especially the development products it produces. However, it seems that the importance of open source as an example of how unprotected software can be of benefit to the software development community, is misplaced and largely irrelevant in terms of today's market. In most cases open source constitutes a software development component or tool, and is not an end product or system that has been devised for sale on the market, which requires capital raising staff hire and marketing.

Many systems developed on an open source software platform have required patenting to still provide some degree of protection to enable the entities undertaking the overall development risk, some form of security to discourage copiers and follow-on innovators from benefiting from their hard earned entry into the marketplace. It is the patent that is the strongest IP tool available to assist these entities who have taken the development risk and compete with larger industry and follow-on innovators, who are the ones that require the patent protection, not the developers whom are outsourced and paid for their development work.

It would appear to us that the PC is obtaining its information from the wrong market sector and needs to seek input from those who are actually creating the products and competing on the marketplace.



INFORMATION REQUEST 9.1

How can transparency requirements for pay for delay settlements be implemented in a manner that retains effectiveness but minimises compliance cost?

- Should there be public reporting of aggregated data?
- How can the system adequately capture agreements that involve the transfer of non-monetary benefits such as licences or transfer of rights?

Please see our comments made in response to Draft Recommendation 9.4.

INFORMATION REQUEST 11.1

To what extent — in terms of incidence and costs — is trade marked metadata used in a way to confuse consumers? Is such a problem likely to get worse or better?

FICPI Australia has no comment to make on the issue of trade marked metadata at this time.

INFORMATION REQUEST 11.2

To what extent and in what form does consumer confusion arise from the provision of wine and spirit geographical indications?

Under what circumstances should wine and spirit geographical indications be amended or repealed? Who should make such decisions?

FICPI Australia has no comment to make on the issues identified at this time.

INFORMATION REQUEST 12.1

Would extending essentially derived variety coverage to all plants reduce the potential for patent 'sniping' of varieties protected by Plant Breeder's Rights?

The Commission is also seeking feedback on the practicalities of developing and implementing a market-impact test to complement existing tests of essentially derived variety status.

FICPI Australia has no comment to make on the issues identified at this time.

INFORMATION REQUEST 13.1

What would be the implications of repealing the Circuit Layout Act 1989 (Cth)? Are there better ways to provide circuit layout rights?



Without commenting on the implications insofar as Australia's obligations to international treaties are concerned, FICPI Australia considers the Circuit Layout Act to be somewhat superfluous to the needs of local industry at this time, given the absence of a circuit layouts fabrication industry of any note in Australia. Although as identified in the PC Draft Report there are other ways to prevent copying of circuit layouts, legally, there do not appear to be better mechanisms to protect circuit layouts other than by way of the Circuit Layout Act.

INFORMATION REQUEST 16.1

What institutional and governance settings would best ensure that IP policy benefits from a policy champion and is guided by an overarching policy objective and an economy wide perspective?

Would vesting IP policy responsibility in a single department further these goals, and if so, which department would be best placed to balance the interests of rights holders and users, including follow on innovators?

Are there any complementary or alternative measures that would help facilitate more integrated and evidence based IP policy making?

Please see our comments made in response to Chapter 16 "Comments on Key points and Recommendations".

INFORMATION REQUEST 16.2

Is there merit in establishing a clearer separation between policy and administrative functions for intellectual property, and if so, where should the dividing line lie?

What mechanisms are available for transparently setting out the separation of IP policy and administration responsibilities?

FICPI Australia agrees that there would be merit in establishing a clearer separation between policy and administrative functions for intellectual property, whereby IP Australia at present is responsible for both. This creates confusion and tension within IP Australia.

FICPI Australia considers that IP Australia should focus more on administrative functions and not drive policy, leaving policy to a specific department dedicated to dealing with IP policy issues led by a separate Minister to that responsible for IP Australia. This department could take input equally from IP Australia and other stakeholders such as the IP profession.

INFORMATION REQUEST 16.3

What features should be included in a model agreement covering intellectual property if one were to be adopted?

FICPI Australia has no comment to make on the issue identified at this time.



INFORMATION REQUEST 17.1

How extensively have mechanisms such as the Patent Cooperation Treaty and patent prosecution highways been used to reduce the transaction costs of obtaining IP protection overseas? Have Australian businesses utilised opportunities for licensing through SourcelP? Are there other options that would facilitate and promote the licensing and transfer of intellectual property between Australia and other countries?

FICPI Australia observes that there has been extensive use of the Patent Cooperation Treaty especially and to a lesser extent Patent Prosecution Highways to reduce the transaction costs of obtaining IP protection overseas. We consider that both systems have significant merit for local applicants.

As SourcelP is relatively new and is limited to public-sector IP, we are not in a position to comment at this time.

In general, FICPI Australia considers that there is a considerable lack of knowledge within Australian industry and the corporate sector generally on the ability to license and transfer IP between Australia and other countries. Much of this dearth of knowledge lies within government service providers to the industry sector, the industry sector itself and business consultants or service providers to industry.

We consider that greater education of all sectors of the innovation market in respect of technology transfer and even a register of service providers in the field, established and maintained by an appropriate sector of government, could be useful to facilitate and promote the licensing and transfer of IP.

INFORMATION REQUEST 18.1

Would changes to the jurisdiction of the Federal Circuit Court improve access to dispute resolution by small- and medium-sized enterprises? Should additional rules be introduced, such as caps on the amount of costs claimable in a case? What is the upper limit on damages claims the court should hear?

Are there resourcing impediments to the proposed reforms to the Federal Circuit Court?

Can greater use be made of cost orders in the Federal Court, including for discovery, to reduce costs further? Should additional Federal Court rules be introduced, such as caps on the amount of costs claimable in a case?

FICPI Australia notes that the PC does not see a strong case to establish a dedicated IP court along the lines of the UK's Intellectual Property Enterprise Court (IPEC), and that the Draft Report does not include comment regarding the use of specialist IP judges.

FICPI Australia strongly recommends the use of specialist judges in all IP matters. This reflects experience in almost all countries with developed jurisprudence.



This is particularly important in a lower level court where matters need to be decided efficiently and without extensive time being spent on judicial education. The Patents County Court experience in the UK and the experience of the Federal Circuit Court, for example, shows very clearly that parties will generally avoid using lower courts if the judges are not expert at handling IP matters. UK practitioners comment that the high quality and knowledge of IP law of the IPEC judges have been critical to its success.

It is further noted that in the Federal Court of Australia, specialist panels have been reintroduced after temporary abandonment in some areas led to significant problems arising.

Regarding the FCC, FICPI Australia agrees with the PC's view that more use should be made of this court, including use of ADR and mediation, but considers that the greatest barrier to adoption to date is that cases are not managed and decided by a judge with IP expertise. If lower court decisions are frequently reversed on appeal, then there is no advantage in bringing cases there, whatever the cost saving at first instance.

FICPI Australia recommends the appointment of an FCC judge with IP expertise who could hear IP cases nationally, combined with the adoption of specific IP rules and practice.

Subject to appointment of an expert judge as discussed above, FICPI Australia is supportive of the idea of using costs limits to encourage use of the FCC.

It may be advisable to give the FCC unlimited jurisdiction but provide procedures for appropriate major matters to be commenced in or transferred to the Federal Court.

Providing a practical way of limiting costs would be critical to a functional lower court system. It may be appropriate to have a relatively simple scale of costs rather than a cap on costs. This would provide a lower cost structure than the Federal Court but allow for some differential in cost recovery depending on the nature and complexity of the case.

Further FICPI Australia considers it may be appropriate to extend patent jurisdiction to the FCC, contingent on appointment of a suitable FCC IP judge and the adoption of specific rules and procedures. In this case, greater resources than might ordinarily be provided to an FCC judge (such as technical and legal research assistance), would need to be made available.



COMMENTS ON KEY POINTS AND RECOMMENDATIONS

2 ASSESSING THE IP SYSTEM – AN ANALYTICAL FRAMEWORK

Referring to the experience of **FICPI Australia** members who deal directly with protecting the ideas and innovations of Australian individuals, SMEs and large corporations, there is no underprovision of ideas and innovation reaching their desks. The owners and entrepreneurs of ideas and innovations that do not, or are reluctant to, use the IP system, generally decide that the IP system is either too expensive for them to use, is not able to be enforced at reasonable cost if required due to the expense of the court system and the perceived David v Goliath scenario that will arise if a larger established corporation decides to copy or improve upon the original idea or innovation, and/or is not necessary for them to undergo as part of their business plan in exploiting their idea or innovation successfully.

FICPI Australia agrees that government intervention is necessary to not only provide an accessible IP system to support Australian originators and innovators in a competitive environment, but also to reduce the barriers to entry into the marketplace for Australian industry, which the IP system helps to reduce by providing a legal an exclusive right to stop others from using the expression of ideas or innovations without permission or payment, but in our view, is not enough in itself.

FICPI Australia considers that stronger IP rights are not necessarily better for the community. While strong IP rights allow businesses operating in Australia to grow, the marketplace is saturated by international companies which in turn can adversely affect domestic businesses. **FICPI Australia** considers that the reason for this saturation has nothing to do with the IP system, but rather, government policy in making Australia compete in a global marketplace. The saturation of our market with goods and services produced and supplied by large corporates and multinationals is the price to be paid and also enjoyed as a consequence of this policy.

FICPI Australia acknowledges that the reach of IP and IP policy has indeed expanded over the decades in terms of the global economy, is far-ranging due to there being a global economy, and is still growing given the benefits that can be achieved through technology transfer under the control of a global and harmonious IP system, which still respects national sovereignty. **FICPI Australia** does not agree that the evolution of how IP rights are assigned, used and enforced has advanced without a clearly articulated policy objective for the IP system. Patents, trade marks and designs have always been part of a legal regime for “industrial” property, and it is clearly evident that these regimes have utility for persons involved in trade and commerce. They are based upon providing an exclusive right to the person who registers their innovation/invention, trade mark and/or design subject to the regulatory requirements of each regime, whereby the subject of their registration becomes publicly available in an organised manner.

The provision of the exclusive right is unquestionably valuable to a person engaged in trade or commerce, and creating a transparent system with certainty, also allows for competition and follow-on innovation with certainty.

Therefore, in the view of **FICPI Australia**, at least in so far as the industrial property statutes are concerned there is an implied policy objective, and we cannot see how this has hindered past IP reform efforts.

FICPI Australia has no problem with the PCs view that an objective of the IP system should be to maximise the well-being of all Australians, however, it should not be an exclusive or sole objective of the IP system, as Australia is functioning in a global economy, which the



IP system helps regulate trade and promotes technology transfer to those that originate and innovate, and provide a mechanism to value-add to the domestic economy where these originators and innovators reside.

This is not inconsistent with the PCs view, however, in the IP system providing incentives for innovation, investment and the production of creative works, while not unreasonably impeding further innovation, competition, investment and access to goods and services. However, **FICPI Australia** queries the qualification of the IP system only supporting innovation, investment and the production of creative works that would otherwise not occur. **FICPI Australia** considers this to be a very short-sighted and unrealistic view. IP can also value-add to existing innovation, investment and production of creative works to the betterment of the economy, where such innovation, investment and production of creative works would otherwise be stifled by unregulated competition, where no IP rights supporting such would act as a disincentive or deterrent to originating and innovating in the first place.

FICPI Australia agrees that IP's role in economies has become a more influential framework that affects not only innovation, but trade, competition, taxes, consumer protection amongst other areas. The problem **FICPI Australia** sees is how global businesses are affecting the incentives for Australian businesses to innovate and use innovations. There needs to be a careful balance of policies not only in intellectual property, but in other areas such as trade and competition which affects how global and domestic businesses compete with each other.

A principles-based approach needs to be driven by market demand and trends in Australia. Enhancing areas that draw a high amount of traffic in Australia is advantageous as this will facilitate innovation from like-minded individuals/businesses/companies. **FICPI Australia** agrees that the merit of the principles-based system lies in it being flexible and that it can change with circumstances. Alternatively, this approach may impede the effectiveness of Australia's IP system if policy makers cannot 'catch up' with change.

FICPI Australia has no problems with the four principles identified by which to assess and frame Australia's IP system, now and in the future, and agrees that an economic approach is appropriate.

3 HOW DOES THE SYSTEM FARE?

At the outset, **FICPI Australia** can see no reason why Australia's IP system should only promote the creation of genuinely new and valuable innovation and creative works ***that in the absence of such a system, would not have occurred.***

This would appear to be a self-serving qualification for those employed in funded research, and is hardly representative of all "effective" innovation. How can one ascertain whether an innovation would otherwise have occurred, before it has in fact occurred, and further why should effectiveness of IP policy be limited only to such innovations? There would appear to be a suggestion that only innovations that arise due to there being an IP system are effective innovations, and all other innovations are not, which in our view is abjectly wrong.

The IP system is based upon rewarding the first person to create or originate IP not only for the purposes of bringing knowledge of the innovation into existence for the betterment of further research and development and follow-on innovations, but also to enable fair and reasonable commercial exploitation of the innovation by the creator or originator, which can add value to the economy. This can be done not only by exploiting the innovation in Australia, but also by leveraging the IP right in Australia and extending it to overseas



countries where the benefit of exploitation in overseas markets can flow back to the Australian economy i.e. by way of export.

FICPI Australia agrees that Australia's IP arrangements are not as effective as they should or could be. The incentives for creators is an area which needs assistance from a policy perspective. The IP system and the Australian marketplace is dominated by global businesses and this is creating an unfair advantage for local businesses as they do not have the resources or backing to promote the creation of new and valuable innovations in Australia. We are seeing talented individuals leaving Australia and developing innovative inventions overseas. The incentive for innovation to happen in Australia is relatively low, therefore domestic originators and innovators are finding it very hard to compete with overseas entities.

The observation that IP arrangements do not always result in additional innovation or creative works, and not all IP is socially valuable is not necessarily an indictment on the IP system. The purpose of the IP system is to strike a balance between originators and innovators on the one hand and copiers and imitators on the other. It also provides the opportunity for follow-on innovators to enjoy IP rights themselves and have the opportunity to commercialise their follow-on innovations through the IP system to add value to the economy that is not only sourced by way of commercialising the follow-on innovation per se, but also the opportunity to commercialise the IP through technology transfer arrangements that otherwise would not be possible without the existence of IP rights in the first place.

It is the observation of members of **FICPI Australia** that there is a profound lack of knowledge within Australian industry on how to intelligently commercialise IP rights, whereas the large overseas incorporates and multinationals are highly advanced and skilled in doing so, which provides them with their power in the marketplace.

If Australian industry was to be able to develop businesses to not only adopt and adapt innovations, but also originate and innovate in their own right, with a view to exploiting the IP, in addition to the innovation itself, whether it be an adoption, adaption, modification, improvement, origination or whatever description uses, then we would see a far greater level of participation of Australian industry in the marketplace, and far greater value-add to the Australian economy that arises from the comparatively meagre contribution that the industry makes compared to the larger overseas corporates and multinationals.

FICPI Australia notes the PCs point that Australia's IP arrangements fail to strike an efficient balance between incentives for creators and costs to users. This is a very general view, which may apply in certain areas of the IP system, but in the main, we consider the industrial property regimes of patents, trade marks and designs does strike the right balance.

It is not possible to please all the people all the time, and there are many interest groups that fare better or worse under the IP system. However, the industrial property regimes have been under constant reform to ensure that the balance remains efficient and equitable.

That said, **FICPI Australia** acknowledges that IP policy is often failed to account for overlapping rights and that a more uniform approach to policy does have merit. However, **FICPI Australia** considers that some of the focus of the PC in identifying the problem areas, is misplaced with undue emphasis on the patent system and certain types of patents such as innovations, business methods, software and pharmaceuticals, where there are inbuilt mechanisms that operate on an annual basis to discourage the maintenance of rights in



relation to innovations and inventions that are not being commercialised, e.g. renewal fees, whereas other IP regimes have no such provision.

FICPI Australia disagrees that multilateral and bilateral trade agreements substantially constrain the adaptability of Australia's IP arrangements, at least in relation to the industrial property regimes. While Australia is subject to multilateral and bilateral trade agreements, there is ample opportunity for Australia to customise its IP laws to suit domestic IP policy. The introduction of the innovation patent system is a case in point, where its introduction was intended to serve the interests of Australian SMEs and provide an alternative to the rigid standard patent system, which was expensive for SMEs to access.

Australia operates in a global marketplace and the benefits for originators and creators of IP's rights in Australia to properly take advantage of the rights made available to them and value add to the Australian economy requires the extension and access of these rights in overseas countries and regions. The fact that Australian innovators do not fully take advantage of this is not a problem of the IP system, rather it is a lack of education and knowledge on how to use the existing IP system for their own benefit and the benefits that can flow from it to the Australian economy. Therefore, there is a fundamental requirement that the IP system in Australia be harmonised with the IP systems of overseas countries to facilitate the extension and obtainment of IP rights by Australian companies in overseas countries based upon their Australian IP rights and minimise their expenditure in attending to this.

Furthermore, Australia does benefit from the inflow of products and services into its market from overseas, where more sophisticated and higher-level technology can be viably developed and commercialised, where it cannot be undertaken in Australia for a variety of reasons. Therefore it is necessary for Australia to have an IP system that is also conducive to the interests of overseas originators and innovators, but which provides an opportunity for Australian industry to access and participate in easily.

FICPI Australia agrees with the PC's view that transparent and evidence-based policy helps ensure the public can hold the Australian government and its agencies to account for policy decisions and use of public resources and that this area can be improved.

Further, while Australia's stance on IP rights is out of kilter with its position as a net importer of IP intensive goods and services, this does not make Australia's adoption of a high quality IP system wrong. What needs to occur is that there is greater support by government for Australian industry and services to make use of the IP system, where education in relation to such is sadly lacking.

FICPI Australia, however, notes that IP Australia has made significant inroads in helping to educate Australian industry in relation to the use and benefits of the IP system. Its support of television programs such as "Shark Tank", which demonstrates to the public and industry the realities of innovation commercialisation and highlight the essential role that IP rights play, is laudatory and should be supported further.

Australia is a long way behind and has a long way to go before it fully understands the power of its IP system that the government and the courts have supported. The education process has a long way to go and **FICPI Australia** strongly cautions the PC against listening and giving too much credibility to self-interest groups and lobbyists who are products and exploiters of a lamenting industry, and instead look towards assisting, supporting and arming Australian industry with the skills to make use of, and work with, the IP system, which plays a hugely important role in making the global economy work for the benefit of the world, rather than attack it.



6 THE PATENT SYSTEM: FOCUSING ON THE FUNDAMENTALS

FICPI Australia does not agree that the Australian patent system is failing to make the principles of a well-functioning intellectual property system. To the contrary, by world standards, **FICPI Australia** considers that the Australian patent system is quite exemplary of a common law based country, with flexibility for both patentees and challengers to utilise in a low-cost manner and ensure that the balance between innovators and follow-on innovators is kept in check.

We query the veracity of the statistical and economic analysis that has been undertaken or relied upon by the PC to arrive at a conclusion that there is a non-trivial number of patented inventions that do not benefit the community, and that this has reduced the system's effectiveness. **FICPI Australia** considers that compared to the number of innovations that are being introduced into the marketplace by Australian industry and by comparison to other countries as evidenced by Figure 6.4 of the Draft Report itself, the Australian patent system is highly underutilised, and anything that can be done to encourage greater use of the system to assist Australian industry in participating in the marketplace with originating creations and innovations is positive to extract value from the leveraging capable of being achieved using IP rights to transfer technology throughout not only the Australian marketplace but also overseas.

The introduction of the innovation patent was specifically designed to suit the needs of Australian SMEs. However, there are certain pitfalls associated with its use. Although the system was introduced to appeal to self-filers, with the greatest level of respect, writing patent specifications is a highly specialised skill that an innovator must seek specialist professional advice on. The fact that the statistics are populated with innovation patents granted to applicants who have little knowledge and education about the patent system and the commercialisation process is more an indictment on the insistence of the government to continue to promote the use of the system to self-filers, who are entering the innovation space for the first time.

This unfortunate consequence of the system, however, should not detract from its virtue. In the IP strategy area, innovation patents are incredibly valuable, both as a strategic tool to use in enforcement of a patentees rights, and also as a means of providing some basic rights to low-level inventions, which by the admission of the PC is precisely where the majority of Australian business is focused and access the supply chain.

FICPI Australia considers that raising the bar even higher for domestic creators and innovators to access IP rights, simply makes an already virtually impossible marketplace to enter for Australian start-ups, even harder. A major leveller in participating in the Australian marketplace that overcomes the size and financial power of the larger corporates and multinationals, is the holding of IP rights. In our view, where domestic SME's and even larger corporates are seriously disadvantaged in the Australian market place in terms of their size and power compared to large overseas corporates and multinationals, making it easier to access IP rights would be of greater benefit to Australian industry.

From the experience of our members who deal with large corporates and multinationals and who attend international seminars and meetings where the IP policy of larger corporates and multinationals is openly discussed, generally, the decision-making with respect to obtaining IP rights is not dictated by Australian IP laws to any great extent, except where Australian laws are excessive compared to those applying in major markets such as USA and Europe. IP policy of large overseas corporates and multinationals is primarily dictated by the IP law in the major global markets where these corporates and multinationals



operate, such as USA, Europe and now China and more recently India, but generally not Australia.

From the statistical evidence provided by the PC itself, clearly the availability of lower level IP rights through the innovation patent system is not being taken up to any great extent by domestic innovators or overseas applicants and therefore cannot be an impediment to further participation in the marketplace by Australian industry.

Instead, there is a need for more education of Australian industry in how to make use of the IP system and valuable tools like the innovation patent system.

The Key point made by the PC that the strength of rights provided to patent holders is excessive and firms are using the system strategically appears to be a very subjective conclusion, without any real evidence being provided to support this in the chapter. Given the volume of imports and the competition in the marketplace between overseas corporations, we query whether the alleged strategic use of patents for anti-competitive purposes is a real barrier follow-on innovation, when the Patents Act caters for the provision of compulsory licenses for non-working of an invention and the revocation of a patent at the completion of the license – see Chapter 12 of the Patents Act.

The point is that the Australian Patents Act is well conceived and includes all relevant provisions to address the concerns identified by the PC. **FICPI Australia** considers that problem is more to do with a lack of education and discipline amongst Australian innovators and follow-on innovators to use and abide by a system that has been carefully crafted to provide the correct balance between creators and follow-on innovators, and allow them to compete in a global economy.

As previously mentioned, a follow-on innovator with an innovation worthy of protection under the Patents Act is able to obtain the grant of a patent in their own right, and leverage the use of this to enable them to enter into negotiations and achieve a license or cross-licensed outcome, if the follow-on innovation is worthy of commercial exploitation and is a true improvement in its own right. If the follow-on innovation lacks the ability to be patentable in its own right and really is tantamount to no more than a copy or an inventive or an innovative modification of the existing patented innovation, then we query why the PC is giving so much credence and support to allow these follow-on innovations to compete and co-exist with the original innovation in what is a very small market that erodes the benefits established by the creator or innovator of the patented innovation.

From consideration of the PC discussion, we consider the criticisms aimed at TRIPS and bilateral and regional trade agreements with respect to patents to lack substance and are not supported by any evidence. That said, we agree that multilateral treaties are preferred over and above bilateral and regional trade agreements that cow-tail to the national interests of the other party and the detriment of Australia's national interests.

In light of the above, the case presented by the PC for raising the inventive step in Australia, with respect, is hardly compelling. Contrary to the belief of the PC, the European patent system is far from being an iconic example of a well-balanced patent system, and instead has been plagued with problems due to its rigidity and inability to adapt with changes to European industry and the economy, especially with its inability to protect and support regionally developed soft and business related innovations. This is seen a focus on hard and/or mechanical technology and innovation in that area, with the importation of soft and business related innovations.



By contrast to Australia, the European market is in fact the largest market in the Western world, and is capable of supporting large-scale manufacture of hard and/or mechanical technology and innovation at the high end of the supply chain, which is not the case in Australia. Thus, the European patent system, in a sense, is supportive of the type of high-level hardened and/or mechanical innovation and technology developed locally that is complementary to its market size.

By contrast, the Australian economy cannot support the development of the same sort of innovation locally, and instead, appeals towards lower cost soft and business related innovations. Consequently, it is logical to have a patent system that caters for and supports this type of industry, which can be supported locally, and if protected the right way to engender strong IP rights, provides the opportunity for Australian industry to benefit from the commercialisation of these rights both nationally and globally.

With respect, **FICPI Australia** considers the determination of what is “socially valuable” to be highly subjective. Looking at the number of people using softly fuelled smart devices in their everyday life, we considered that there is an even more compelling argument to suggest that business method and software related technology is far more “socially valuable” to the average Australian than other types of technology, which seems to be more interesting because it appeals to high-level, research-focused academia or publicly funded research bodies that are not borne out of commerce.

In stating this, **FICPI Australia** is not opposed to supporting such research and funding efforts by government, but simply is using this as an example of the apparent bias that the PC is arguing against providing patent protection to commercially related innovations arising from a market need and in support of funded research, not borne out of any market need. **FICPI Australia** simply queries why there should be any bias or inequity in the treatment of innovations in one sector to be able to be patented from another to not be patented, in the eyes of the PC.

The process of translating an invention into innovation, ie a product or process that creates value and for which a person will pay, can take years in certain areas of technology, whereas in other market sectors it can be accomplished almost immediately. Accordingly, identification of social value and its height is at best problematic at the early stage of seeking patent protection for an invention across all technology fields, and in particular where ‘disruptive’ inventions/innovations are concerned. What may not be considered to be a socially valuable invention one day may in fact become a socially valuable innovation another day.

The PC suggests that “exclusively targeting the special class of inventions that are socially valuable and additional avoids the two potential errors in allocating patents: ‘false positives’ (cases where a patent is granted where it is not in the public interest) and ‘false negatives’ (cases when patents are not granted, when to do so would be in the public interest)”. However, the range of evidence referred to by the PC in concluding that the current patent systems fails to do so, page 172 and Appendix D), while illustrative, in **FICPI Australia’s** view does not point to a need to increase the quantum of inventive step of an invention to meet ‘non-obviousness thresholds’. Rather, it points perhaps to a need to more precisely define the type of subject matter for which a patent ought to be available or not in the first place, as an appropriation tool for idea creators and originators to protect their investment in transforming idea into invention and then into innovation.

In **FICPI Australia’s** view, the PC has incorrectly identified problems that have given rise to a perception that the inventive step bar in Australia is too low for granting a patent, and



thus the proliferation of 'low-value' patents encumbering an optimal functioning of the IP (patents) system.

One stems from the misconception held by many in equating the quantum of inventive step with the 'scintilla' of invention deemed, even quite recently by Australia's highest court, to be sufficient to sustain a patent. What eludes many is that the 'scintilla of invention' moniker was coined by judicial authority at a time where the distinct concepts of novelty, inventive step and 'subject matter' (or manner of new manufacture) had not yet found distinct articulation in the patent statutes, as has happened post 1952. The 'scintilla' was coined to reflect a qualitative test for invention vs a quantitative test, as now separately embedded in the obviousness assessment pursuant to Sections 7 (2) and (3) Patents Act.

The other root problem, often and at times purposefully ignored by some, stems from an attempt to coin judicial 'tests' which seek to accommodate judicial precedent within a reworded legislative test for inventive step, and codified in this in Sections 7(2) and (3) Patents Act 1990.

In **FICPI Australia's** view, while the current wording of Sections 7(2) and (3) could be regarded as more complex than analogous provisions in other jurisdictions, the intent of the legislator at the time was clear: Raise the Bar.

For these reasons, **FICPI Australia** does not concur with the PC's view that the recent reforms have not addressed 'all' of the deficiencies in the inventive step evaluation framework. As is evident from the case law referenced in the PC's draft report page 178, this reform intent has to this date not been fully appreciated or given weight by judicial bodies (Courts and Solicitors/ Barristers alike).

Accordingly, **FICPI Australia** considers a better approach in ensuring that judicial and administrative bodies give due consideration and apply legislative intent to 'lift' the inventive step bar would be to explicitly identify judicial precedent (case law) which is no longer to be applied in determining the presence or absence of an inventive step.

FICPI Australia is also of the view that the suggestion for the Australian Government to explore opportunities to further raise the overall threshold for inventive step in collaboration with other countries in international forums, fails to fully appreciate that the national interests of many fully industrialised countries with 'strong' IP regimes do not necessarily coincide with those of many developing countries in particular. At an economic level, the question of national (development) interests concerning indigenous IP creation would be under threat.

Consistent with this view is the very thrust of the PCs view that our IP arrangements need to benefit Australian industry and that there needs to be flexibility to ensure that our patent system accommodates and serves local innovation, so that Australian industry can achieve the benefits provided under our own patent system to at least the same extent that foreign entities are now enjoying the benefits of our system, being more au fait with the use of patent systems around the world. An important plank of the Australian system, and especially the test for inventive step, is that it is borne out of a "common law" legal system, as opposed to a "civil law" legal system. The PC should have due regard to this and not drive changes that act against the interests of local industry.

The provision that obviousness needs to be looked at through the eyes of a person skilled in the relevant art in the light of common general knowledge, is a case in point. The concepts of novelty and inventive step come from different bases and involve different legal considerations quite deliberately. Maintaining the qualification of "common general



knowledge” with respect to inventive step does provide clarity in how a skilled person truly views the prior art, and dispensing with this in our view does nothing to raise the level of inventive step higher, it just creates more ambiguity in how to apply the test.

Despite the above, if the PC still considers legislative change to inventive step necessary in order to align with our trading partners, which we submit is not necessarily in our national interests, **FICPI Australia** would instead recommend that achieving true harmonisation of currently existing inventive step provisions being negotiated under the current WTO regime, would be the better forum for consideration of the issue as such might better further the interests of all parties concerned with IP. It is **FICPI Australia’s** view that such will require ‘judicial harmonization’ of the different ‘quantum levels’ of inventive step required to sustain a patent, given that the legislated ‘tests’ applied in our larger trading partner countries are already very much harmonised in letter, as can be seen from Box 6.4 of the Draft Report.

7 THE INNOVATION PATENT SYSTEM

FICPI Australia considers that the need for the ‘second’ tier innovation patent protection system for incremental invention to provide incentives in particular to SMEs to ‘innovate’ remains valid to date and into the future.

FICPI Australia acknowledges that there may be some ‘tweaking’ required with the innovation patent system as it operates today in order to better balance the needs of follow-on innovators and patentees, especially where the innovation patent system provides for the grant of a patent which has not undergone any substantive examination.

While the innovation patent system does not permit such patents to be enforced without obtaining certification arising from requesting substantive examination, it is not easily apparent to a member of the public as to whether an innovation patent has been certified or not, or being aware that an innovation cannot be enforced until it has been certified.

Nonetheless, the interests of the public at large, and in particular potential competitors of an innovation patent holder, are safeguarded by the existing provisions concerning granted innovation patents, where third parties themselves are able to require the innovation patent owner to request examination. Relatively minor changes to payment of examination fees could further diminish cost imposts on the public and interested third parties.

FICPI Australia would welcome an opportunity to engage in a more detailed consultation with the PC in seeking to modify rather than entirely abolish the existing intellectual property system.

FICPI Australia submits that the legislated innovative step test is pitched at the right level for the standard of innovation across most if not all industry sectors in Australia at the present time. **FICPI Australia** acknowledges though that the judicial innovative step test applied by the Australian courts may require legislative intervention by tightening the provisions of Section 7 (4) and (5) Patents Act, as has been submitted by IPTA and FICPI Australia in their joint response to the ACIP review of the innovation patent system.

Indeed, the joint IPTA and **FICPI Australia** submission in response to the ACIP review of the innovation patent system, a copy of which is included at Annexure A, identifies many flaws with the conclusions drawn from the statistical data as interpreted by IP Australia. We strongly suggest that the PC have regard to this submission pursuant to any further investigation of the innovation patent system undertaken by it.



FICPI Australia observes that small incremental (even if ‘obvious’) improvements/ inventions do often make a valuable contribution to the economy, and completely depriving innovators of access to some form of registered IP protection for ‘lower level’ inventions seems unjustified in light of protection being available for other creations, namely those of artistic works vis-a-vis innovations of a utilitarian nature, such as rights provided through copyright.

FICPI Australia notes that a shorter lifetime for an innovation patent is an adequate trade-off against the lower threshold test for innovative step vs inventive step. Whether the current 8 year maximum protection term is appropriate should be investigated further, and is a further policy consideration.

FICPI Australia acknowledges the concerns raised by some stakeholders that the innovation patent system is being (mis)used by some industry sectors for ‘strategic purposes’ in an attempt to use it to pursue alleged infringers instead of the standard patent system. It is said that the lower validity threshold to which innovation patents are subject will ensure the survival of a patent in case of a counter-claim for revocation, and that strategic users can customise innovation patent claims in the knowledge of a competitor’s product. FICPI Australia notes that customising of claims to capture allegedly infringing third party conduct can and is also done within the standard patent system, within the constraints imposed by the ‘support’ provisions in Sections 40 (2) and (3) Patents Act.

However, these all amount to litigation tactics and should be understood by ‘knowledgeable’ counsel handling a case for one party or the other. The same tactics can be applied to some extent using standard patents. Ignorance of the lawful tools available to strategically position one party over another is no excuse to disband in a patent system pitched at serving the interests of SMEs, simply because the party having better ‘knowledge’ of the patent system is able to outmanoeuvre the party having a lack of such knowledge.

If anything, this provides a reason why legal counsel should involve more participation by patent attorneys in the litigation process than less.

Such concerns of the innovation patent system in particular, as sought to be illustrated in Figure 7.4 of the PCs draft report, could be addressed by legislative modifications to the ‘divisional patent’ provisions, and others, without compromising the originally intended purpose of the innovation patent system.

In summary, **FICPI Australia** notes the various suggestions made by other interested parties in how the innovation patent system could be modified or improved so as to be retained, as per pages 227 to 230 of the Draft Report. In light of these, FICPI Australia does not consider that abolishing the IP system remains the best policy option. It appears, with respect, that the recommendation by the PC contradicts considered and useful proposals that will enable the innovation patent system to meet its originally intended goals. After all, despite ‘second tier’ patent systems not being available in some of our largest trading partner countries like the USA, many others still see the benefit of maintaining such, e.g. China, Japan, Germany, and most European civil law countries.

8 BUSINESS METHODS AND SOFTWARE PATENTS

The analysis outlined in the Draft Report in relation to business methods and software patents seems to have been apprehended by small self-interest groups and has focused on isolated instances of attempts to garner a sector of commerce using the patent system for financial gain. **FICPI Australia** considers that the PC needs to take a far broader and more representative investigation into the software and ITC sector of the economy before



making broad sweeping recommendations that will affect the industry as a whole. In the view of **FICPI Australia**, the software and ITC sector of Australian industry must have access to a strong IP system including patent and copyright rights in order to effectively commercialise its innovations, not only in Australia, but internationally.

In order to obtain a full return on investment in developing and commercialising an innovation in the business, software or any other industrial or technical sector of the economy, Australian industry must be able to leverage its IP rights beyond the Australian market place and exploit the innovation and IP on a global basis. The business method and software area is no different to any other innovative area. For example, the ability to rapidly develop and commercialise a simple mechanical invention is no different to what is faced by the business method and software industry, so why should one industry sector be treated any differently from another industry sector?

FICPI Australia is aware that there are self-interested industry groups representing businesses simply focused on innovating, making money quickly and moving on with further innovating, having scant regard for other people's intellectual property, wanting to use and copy it without remunerating the originator. The argument to justify this is that their ability to innovate rapidly with follow-on innovations is worth the price of them being allowed to copy and acquire other people's IP in the process. This is an interesting justification, which is not accepted in ordinary life with real property, so why should it be tolerated when it comes to intellectual property? The problem with dynamic developers, who make a software product quickly and move on, is that there is no quality control. As a consumer, who wants to buy a software product one day, that is obsolete the next day, and after a month or two finds problems and bugs in the software, with no recourse to obtaining a replacement product with the bugs repaired, because the software developer has moved on to a new product?

While the developers can be very expert and ingenious in terms of their innovations, in terms of reliability, quality control, employment and business responsibility, which the consuming public rely upon when purchasing a new product and being ensured of some level of quality, these developers can be found wanting. The IP system engenders some ability for a developer to create a product and build a market around it that is sustainable by warding off copiers and follow-on innovators, who may otherwise flagrantly pirate and compete with the originator without any recompense to the originator.

Given the virtual elimination of the manufacturing industry in Australia of high-end supply chain, mass produced products, there has been a compensatory swing towards a knowledge-based economy where the business method development and software community thrives, being world class.

The purpose of the patent system, summarily, is for innovators and inventors to follow new trends and types of innovation and invention that are in the field of economic endeavour and of benefit to the nation, by providing some form of reward in the form of an exclusive right to exploit the right holder's innovation for a limited period of time and provide them with the ability to value add to the economy by not only commercialising the innovation in Australia, but also overseas.

From **FICPI Australia's** point of view, it is self-defeating to take away a valuable tool in the form of IP rights that assists a business in commercially exploiting innovations in a particular industry sector where Australia is a world leader. The IP right is the instrument that provides the opportunity for its owner to value add to the economy, exploiting not only the innovation but also the IP associated with it and help build a business from a start-up size to a larger size corporation by temporarily holding off direct competition and follow-on innovators from copying the innovation.



Business methods and software are the very areas where Australian industry does require the support of the IP system and access real wealth creation by being able to commercialise the IP by way of technology transfer agreements and the like, as well as the innovation itself.

Adopting a mistake made at the outset with the European patent system by excluding business methods and software due to a misunderstanding of what software was, which appears to being emulated by the PC in their explanation of software in the Draft Report, is a regressive step. There is ample evidence to suggest that the European economy has suffered markedly by the lack of a thriving software community compared to the USA and Australia, for the very reason that the industry has not been able to obtain valuable IP rights for its innovations. On the other hand, the software industry has developed well in both USA and Australia due to the fact that there is no such exclusion to it in the definition of what is patent eligible subject matter in both countries.

In any event, the legal regimes have been able to separate out what is patentable from what is not patentable on the basis of case law, having regard to the circumstances of the case at hand. It is very clear that given the number of cases that have been decided one way or the other, there is no magic bullet solution that can provide a clear and succinct textual delineation between what is patentable subject matter in the field of business methods and software. The High Court in the NRDC case [1959] HCA 67 worked this out back in 1959, and yet we still have Patent Offices and enquiries such as the PC trying to arrive at some textual definition of what is patentable in the field of business methods and software and what is not, when our learned Judges have already determined that this is impossible.

We also have in the form of the Commissioner of Patents v RPL Central Pty Ltd Full Federal Court decision [2015] FCAFC 177 a reasonably clear decision that indicates the types of inventions including software that are not patentable if they are too abstract, and considering the level of abstraction involved with an invention that makes it a scheme or idea which is not patentable, on the one hand, and the technical contribution making it a manner of new manufacture, on the other hand. Any patent attorney having sufficient technical knowledge in the computer-related invention field, should be able to work out from this decision at least what not is patent eligible in terms of business methods and software, and seek patent protection for only those inventions having a lesser level of abstraction and a more tangible level of implementation within the computer make up where the software actually operates technically in conjunction with the hardware.

FICPI Australia consider that the PC's reference to business methods as a separate form of technology in its own right is misconceived. Unfortunately many business methods originally sought to be patented that were implemented on the Internet or in a computer network, had a level of abstraction that was too high, where basically the scheme or idea where the innovation lay were being attempted to be patented merely by referring to their implementation in what would otherwise be a manner of manufacture, namely the computer network. It is now clear according to the RPL Central decision that this was not consistent with the reasoning of NRDC, and that the inventive or innovative step needs to lie more in the computer implementation rather than in the abstract idea.

Hence a patentable business method is really either a patentable methodology or product that has a business application, which should be patent eligible due to the patentable methodology or apparatus, where the business application is superfluous and just indicates the area where the methodology or apparatus has application, or a scheme of doing business, which is not and never has been patentable.



FICPI Australia has no problem with the latter type of business method being deemed not patent eligible subject matter, but has a problem with the former being classified in the same manner.

9 PHARMACEUTICALS – GETTING THE RIGHT POLICY PRESCRIPTION

Reliance on PPR as evidence

First, it is noted that the PC has relied upon the Pharmaceutical Patent Review (PPR) as a source of evidence in its draft report. However, **FICPI Australia** notes that the PPR review was widely criticised as having been generated by an unbalanced panel. While a member of that panel had close ties to the generics pharmaceutical industry there was no representative of the originator pharmaceutical industry and as such the recommendations of the panel were not balanced. **FICPI Australia** therefore submits that it is not appropriate to rely upon conclusions drawn by the PPR as evidence in the present review.

Australian extension of term system in global pharmaceutical development context

In reviewing the discussions of the PC in chapter 9 of the draft report it is apparent that the PC is considering the value of pharmaceutical patents and extensions of term of pharmaceutical patents very much through the lens of Australian manufacturers. The PC correctly notes that Australia is a net importer of pharmaceuticals. However, valued at \$3.9 billion per year the Australian export of pharmaceuticals is significant. Not only does this industry need to be supported and nurtured, but **FICPI Australia** submits that if the Australian community wishes to have access to lifesaving, and quality of life improving, medicines, then Australia must contribute to at least some extent to the very significant cost associated with development of such medicines, even if this development takes place overseas. In this context it is appropriate for Australia to provide an equivalent system to incentivise innovation in the pharmaceutical industry as in other major developed nations, even if the effect is to reward foreign entities more than those based in Australia.

Australia as exporter of pharmaceutical IP

It is also worth noting that in addition to a significant export trade in pharmaceutical products Australia has a vibrant biomedical research sector that contributes in an important manner to the generation of new medicines and to the export, through sale and licensing, of key intellectual property (IP) relating to novel medicines. Although the Australian pharmaceutical extension of term system is likely trivial in the decisions by Australian pharmaceutical research and development companies and institutions to operate in this space, the provision of equivalent extension provisions in the major markets such as the United States, Europe and Japan certainly does have an impact upon the economic benefits of pharmaceutical IP exportation. Indeed, we expect that the time to market of pharmaceutical innovations originally developed in Australia is somewhat longer than the average given the lack of major multinational pharmaceutical companies headquartered in Australia and the resources that they can bring to bear on the product development pathway. Therefore extensions of term in the major jurisdictions are likely to be of significant value for Australian pharmaceutical innovators. As Australian pharmaceutical R&D businesses and institutions benefit from the pharmaceutical extension of term provisions in other jurisdictions so we should offer similar benefits in return to foreign entities.

Greater than average returns for pharmaceutical companies

FICPI Australia asserts that the criticism in the PC draft report made of pharmaceutical companies for making on average greater returns than those in other industries appears inappropriate. Surely the economic maxim of “the greater the risk, the greater return” must apply in the pharmaceutical sector. For example, if a pharmaceutical company has spent (conservatively) \$200 million developing a drug to phase 2 clinical trial stage and the drug



then fails, all is lost. In contrast, we suspect it is unlikely that a motor car company would have nothing to show for \$200 million of expenditure on the development of a new model or a mobile telephone company would have nothing to show for \$200 million of expenditure on a new mobile phone handset. It seems to us entirely justified, and indeed necessary for the sustainability of the pharmaceutical industry given the enormous risk involved, that the returns in this industry should be greater than the average.

Risk of new medicines not being introduced in Australia

FICPI Australia further asserts that in its draft report the PC appears to have dismissed out of hand the possibility that failure to provide a pharmaceutical extension of term system in Australia could result in pharmaceutical companies deciding not to introduce new medicines to the Australian market. With respect, we believe that this is a significant risk. What the PC appears not to have taken into account is that there is a very significant cost to bringing a new product to market in Australia, which very often involves the conduct of additional clinical trials and will most likely involve the employment and training of a sales force for the education of prescribers, after market reporting to the TGA, submissions to the Pharmaceutical Benefit Advisory Committee (PBAC) regarding listing in the Pharmaceutical Benefits Scheme (PBS) and other significant sales and marketing expenditure. In a small market like Australia, and particularly in relation to therapies for less common diseases and disorders, the introduction of a product onto the Australian market can be of marginal economic benefit to the originator company involved. The absence of a pharmaceutical extension of term system could very well be the difference between a decision to introduce a new pharmaceutical to the Australian market or not. Further, if the originator company does not decide to bring the product to market no generic company is going to go to the expense of conducting the necessary clinical trials in order to meet the regulatory requirements of the Therapeutic Goods Administration (TGA).

Australia as a destination for clinical trials

We note that the PC has adopted the PPR's analysis that as Australia is a net importer of pharmaceuticals, the existence or not of a pharmaceutical extension of term scheme is unlikely to influence whether pharmaceutical R&D is conducted in Australia. Although it is correct to say that there is only a small amount of research conducted in Australia in relation to new chemical entities by multinational pharmaceutical companies (although there are a number of expert Australian research groups who regularly collaborate with the major originator pharmaceutical companies), what both the PPR and PC fail to have recognised is that there is a very significant amount of clinical trial activity that is conducted in Australia. Australia has a world leading public health and hospital system and, particularly with the recent fall in value of the Australian dollar, it is relatively inexpensive to conduct clinical trials through Australian hospitals that are of an extremely high standard. There is an incentive to perform clinical trials in Australia where the commercialisation of the pharmaceutical concerned in Australia is of economic significance. Eliminating, reducing the availability or shortening the term of pharmaceutical extensions in Australia is likely to contribute to forecasts of reduced economic returns in respect of a drug in the Australian market and may well result in alternative markets being selected for the conduct of clinical trials.

Reasons for delay in seeking ARTG listing

In its comments in the draft report the PC has put forward the proposition that pharmaceutical extensions of term reduce the incentive for pharmaceutical companies to apply pressure on the TGA to maintain efficient approval timelines. The suggestion appears to be that pharmaceutical companies are happy to delay the introduction of their new products onto the Australian market. This suggestion does not bear scrutiny. First, as discussed further below, the delay by the TGA in considering applications for regulatory approval is only a trivial component of the total "regulatory delay" associated with the



introduction of a new pharmaceutical product. The most significant delays result from the need to conduct clinical trials in order to meet the requirements of the regulator.

Second, there is no benefit to be had if a pharmaceutical company delays the filing of its application for regulatory approval, given that the maximum effective term of patent protection available is 15 years (effective term in excess of 15 years could only be achieved in the highly unlikely scenario that a product is brought to market in less than 5 years from the date of patent filing). Assuming a pharmaceutical product is listed on the Australian Register of Therapeutic Goods (ARTG) between 5 and 10 years after the date of patent filing then the product will enjoy the maximum 15 year term of effective patent life. However, given the economic imperative to generate revenue as early as possible it is certainly desired by originator pharmaceutical companies to bring the product to market at an early stage.

Finally, in the case where it takes more than 10 years after filing of the patent application (which in fact is very common) to have the pharmaceutical substance listed in the ARTG, the effective term of patent protection will be reduced below 15 years. Originator pharmaceutical companies endeavour to avoid this possibility wherever possible.

While it is undoubtedly the case that applications for listing in the ARTG are generally submitted to the TGA some time after regulatory approval applications are made in the United States and/or Europe, this should not be interpreted as a desire by the originator pharmaceutical company to delay launch of the product in Australia. The rationale for this approach is that an application for regulatory approval will generally be filed in one of the major regulatory offices first (ie. either in Europe or the United States) and the originator company will work closely with the regulator to determine whether any additional data is required to be included in the product dossier. This may require additional clinical trials. It is unquestionably a far more efficient and cost effective process for the regulatory requirements of one of the major regulators to be fulfilled initially, and to then use the dossier filed in that major jurisdiction in all others, rather than simultaneously submitting a dossier to the regulatory authority in all jurisdictions and then dealing at the same time with a range of potentially disparate issues that may need to be resolved and could require additional and overlapping clinical trials. In fact, the process of submitting an application for regulatory approval first, say to the United States Food and Drug Administration (USFDA) and meeting the requirements of the USFDA before lodging an equivalent application with the TGA serves to significantly reduce the workload required by the TGA and reduces the timeframe necessary for consideration of the application by the TGA. By following this process it is highly unlikely that additional clinical trials would be required for Australia that were not necessary in the United States.

10 REGISTERED DESIGNS

On 6 May 2016, shortly after the present draft report issued, the government issued the following response to the ACIP report *Review of the Designs System* (ACIP Final Report) accepting the majority of recommendations that ACIP had made:

https://www.ipaustralia.gov.au/sites/g/files/net856/f/government_response_-_acip_designs_review_-_final.pdf.

FICPI Australia recommends that this response be taken into consideration prior to finalising this draft report.

In the meantime **FICPI Australia** notes that the only recommendation presented in the present report is limited to comment on the Hague Agreement. However, the report in its current form acknowledges in DRAFT FINDING 10.1, that there is no superior alternative



to the present registered designs system, and in the Key Points section at page 293 notes there is no better option than improving the existing system. In terms of future improvements to the present system, the report also agrees at least that amendment of terminology would be beneficial in terms of addressing poor understanding of designs law and rights. **FICPI Australia** supports these observations.

FICPI Australia believes that the report should also specifically recommend continued work with Designs Law Treaty (DLT) with a view to accession as soon as it is finalised, as clearly harmonisation in filing requirements will address a lot of concerns regarding the Hague Agreement in its current form, without any downsides. Currently, Australian designers are disadvantaged by needing to prepare multiple sets of design drawings when wanting to seek protection overseas. Conversely, IP Australia accepts most of the design drawing formats used around the world, meaning that many foreign applicants filing in Australia, do not incur the same cost and administrative penalty that Australian applicants would incur filing in those foreign jurisdictions.

FICPI Australia notes that the government also accepts this recommendation to continue active involvement in promoting harmonisation of international filing requirements through development of the DLT.

FICPI Australia submits that there are a number of serious deficiencies and ambiguities in the current regime that need addressing urgently and which should not be delayed while protracted economic investigations are underway. The Commission acknowledges that Australia has to have a registered design system and that there are no alternatives to improving the existing system. In the government's response to ACIP Designs Review, it agrees that the Designs Act should be amended, as soon as practicable, to address anomalies and bring the designs law into better alignment with equivalent laws of, and agreements with, major trading partners. **FICPI Australia** supports this proposal for urgent reform and suggests that observations within the draft report that align with this proposal be formulated as recommendations. This is on the basis that the majority of these changes will result in benefits to the Australian community by making the system clearer and easier to understand.

FICPI Australia also supports the following changes that are either not accepted, or only noted, in the government's response to the ACIP Final Report.

- Automatically defer publication (publishing) to the point of registration i.e. at six months (with the possibility to request publication earlier if desired) or leave as is and provide option to request deferred publication. This is on the basis that Australian applicants are often put off filing a design application and establishing an early priority claim knowing that the design will be published soon after;
- Extend the maximum term of protection to 15 years now, with renewals at 5 and 10 years, on the basis that system is self regulating as most designs have a short product life, but provision needs to be made to protect highly valuable iconic designs with a much longer product life;
- Require filing of a request for examination of the design before the first renewal (5 years), if the term is to be extended;
- Introduce a system of opposition following certification, if the term is extended;
- Introduce border measures to allow for the seizure by Customs of alleged infringements but only those which are identical *or substantially identical* to Registered Designs. As noted Customs already has power to seize goods which infringe registered shape marks. This involves a very similar assessment of whether the imported article is of a shape which is substantially identical or deceptively similar to the registered shape mark.



11 TRADE MARKS AND GEOGRAPHICAL INDICATIONS

Cluttering of the register

The report focusses on the idea that the Trade Marks Register has become “cluttered”.

Presumption of registrability

The report states that the number of trade mark applications has grown rapidly since the introduction of the presumption of registrability in the *Trade Marks Act 1995*.

Trade mark practitioners readily understand that in spite of the consideration of the principle by the courts, this has effectively had no significant impact on the practice of the Trade Marks Office and in particular has not been applied in a way which significantly improves the prospect of achieving registration.

FICPI Australia submits that this aspect of the report is incorrect.

The increasing numbers of trade mark applications are explained more by the growing awareness of the importance of securing statutory trade mark rights in order to obtain tangible property rights which can be (i) enforced against third parties to prevent anti-competitive conduct; (ii) licensed to third parties and; (iii) assigned as valuable assets.

International Registrations

A link is also made between this perceived cluttering and Australia’s accession to the Madrid Protocol in 2001

FICPI Australia does not agree. While there is an increase in overseas trade marks being applied for and sought registration in Australia, this has more to do with Australia’s participation in the global economy and purpose of the Madrid Protocol, which was to make it easier for applicants to seek trade mark registration of their trade marks in foreign jurisdictions. This applies not only to foreign applicants seeking registration in Australia, but also to Australian applicants seeking registration in foreign jurisdictions.

There is no question that the Madrid Protocol makes it easier. However, the decision to seek registration of one’s trade mark in a foreign jurisdiction is not a trivial consideration, particularly where Australia is not considered to be a large market in global terms. Nonetheless, it is an attractive market having a comparatively high standard of living with the consumer oriented population, having a relatively high disposable income. Consequently, it would be a target market for consumer products, which in the main, are produced overseas, where it is more economic to do so, and are imported into Australia.

Therefore, the increase in the number of trade marks being registered in Australia via the Madrid Protocol is more to do with market dynamics, than anything to do with Australia’s accession to the Madrid protocol.

Mandatory disclaimers

The report proposes the re-introduction of mandatory disclaimers and suggests that this would have an impact on the perceived cluttering.

FICPI Australia does not agree that there is any connection between mandatory disclaimers and the number of applications filed.



However, **FICPI Australia** supports the re-introduction of mandatory disclaimers because they are an effective way to demarcate registration rights from the perspective of both trade mark owners and third parties.

Increasing Fees for Multi-class applications

The report suggests that the perceived cluttering will be prevented by changing the fee structure for multi-class applications

FICPI Australia disagrees. The current system already requires a significant official fee for each class in which registration is proposed. This is generally a sufficient deterrent to applicants seeking unduly wide rights and the non-use cancellation provisions provide a safeguard in any event.

Abolishing Defensive trade marks

The report suggests that defensive trade marks represent a form of cluttering and that they reduce competition.

FICPI Australia disagrees –there is no evidence to suggest that defensive trade marks are problematical.

Reducing confusion in the market

The report notes that the protection afforded by trade mark registrations is not well understood and can be confusing for consumers

Trade marks vs business names

The report suggests that the differences between trade marks and business names are not understood and recommends creating a link between the databases of the Trade Marks Office and ASIC so that when a business name is sought to be registered an automatic search of the trade mark records is generated.

FICPI Australia agrees that there is a need to address this issue.

Trade Marks incorporating geographical references

The report recommends that the Trade Marks Office should revert to its previous practice of routinely objecting to registration of trade marks which contain contemporary geographical references where the goods and services do not emanate from the geographical area concerned.

FICPI Australia agrees that the practice of the Trade Marks Office should more closely reflect Australian Consumer Law in this respect.

Parallel Importation

The report states that the current approach to parallel importation has become unworkable and that this has an impact on the efficiency of the trade mark system in Australia and is confusing for consumers. The report therefore recommends that the trade mark legislation be amended to expressly allow parallel imports where the goods have already been sold by the trade mark owner or its licensee in Australia.

FICPI Australia does not consider that such a provision would be appropriate.

The recommendation does not appear to recognize the reality that trade mark owners have contractual obligations which may effectively prevent the sale of goods into the Australian



market and that goods manufactured in accordance with the requirements and standards of one market will not necessarily be suitable for sale in Australia.

12 Plant Breeder's Rights

FICPI Australia has noted the Key points and at this time has no reason to disagree with the views of the PC in relation to the proposed changes to Plant Breeder's Rights.

13 Circuit layout rights

FICPI Australia has considered the Key points and discussion concerning Circuit Layout Rights, and agrees with the views of the PC at this time.

15 IP and public institutions

FICPI Australia supports funding for research and believes that IP arrangements will assist in facilitating commercialisation of innovation in Australia particularly in areas that are not pursued by private sectors due to various reasons such as money and profit.

In the absence of evidence, **FICPI Australia** cannot comment whether changes to the IP system will accentuate the benefits of public funding. There is insufficient data to test this theory as the flow on effects from public funding and their results has not been quantified.

FICPI Australia agrees that IP policy has the potential to affect Australian research institutions. By implementing policy that is neutral, may not always generate a platform that is beneficial. For instance, large corporations or companies/institutions with power can drive research institutions to innovate or develop in areas that may not benefit Australia but rather in areas that are in their best interest. There should be accountability and checks and balances to ensure neutrality does not create an inequality.

FICPI Australia supports open access policies for publicly funded research to assist the advancement of innovation to better manage research investments and improve economic competitiveness. Opening access to research ensures accountability for public investment.

16 Intellectual property's institutional and governance arrangements

FICPI Australia agrees that in recent times IP policy making has been ad-hoc and fragmented. As an example, the novelty and inventive step requirements for the grant of a standard patent in Australia have changed a number of times since the introduction of the *Patents Act 1990*, each time without clear evidence-based reasons for doing so. This has resulted in patents currently granted in Australia being valid or invalid on novelty and inventive step grounds under multiple different tests depending on the age of the patent.

With respect, the Productivity Commission's recommendation with respect to inventive step (Chapter 6) would simply amount to a further ad-hoc change leading to further uncertainty. Changes to the novelty and inventive step requirements without considering the patent system holistically is, in the view of FICPI Australia, symptomatic of recent policy development in the IP space.

The Chapter 6 recommendation regarding the test for inventive step has not, for example, been advanced after considering other aspects of the Australian system which have an impact on the value and enforceability of a patent right. Australia is one of the few countries of the world which still imposes a "best method" obligation. We have recently seen



Australian patents revoked on best method grounds where that ground of invalidity would not have been available for patents granted in the same terms in most of the countries which are Australia's major trading partners.

Similarly, the *Patents Act* 1990 incorporates provisions for the revocation of a patent based on "secret use" where these provisions do not find counterparts in the patent laws of most of our major trading partners.

Most of our major trading partners have laws where the test for patent infringement extends to functional equivalents in certain circumstances. By adopting the "support" requirements in the *Raising the Bar Act* without corresponding changes to our laws relating to infringement, there is now an imbalance between Australia's patent laws and the patent laws of most of our major trading partners.

These are just some examples of interacting aspects of Australian patent law which are all too often are overlooked by ad-hoc policy formulation without a "policy champion" having a thorough understanding of the entire system.

FICPI Australia agrees that IP policy development would benefit from independent input and that policy development should come principally from a body independent from IP Australia. Of course, IP Australia should continue to be an important contributor to policy development, but **FICPI Australia** considers that IP Australia should contribute its policy ideas to an independent body. The establishment of such a body would resolve any potential conflicts between IP Australia's current role as both regulator and policy adviser. The creation of the Office of the Chief Economist within IP Australia was, with respect, at odds with the regulatory responsibilities of IP Australia. In this respect, we agree with the submission made by the Department of Health (sub 84, P3).

While **FICPI Australia** recognises that the Office of the Chief Economist was probably established due to shortcomings identified by ACIP in having useful economic data for policy determination, FICPI Australia considers that the provision of economic modelling would better come from Treasury or from the Productivity Commission itself.

FICPI Australia considers that a properly resourced independent body, such as ACIP, provides the best opportunity for developing cohesive IP policy. We consider that it is important that such a body have representatives from industry, the IP profession, academia and the Attorney General's department. It should have access to assistance from the Productivity Commission and Treasury where appropriate. **FICPI Australia** considers that such a body should report to the Minister for Industry, Innovation and Science (not to IP Australia).

FICPI Australia agrees with the proposal from the University of Melbourne that responsibility for intellectual property be consolidated within one agency with a single responsible Minister.

The separate development of copyright law policy divorced from other intellectual property policy has resulted in some poor outcomes. For example, copyright in architectural plans for houses continues for the life of the author plus 70 years. In commercial terms, this is a monopoly in perpetuity. If houses were the subject of design protection, the monopoly right in the plans would extend for only 10 years (and then only on registration). That there should be such a gulf between the two overlapping rights is anomalous and the case law is replete with arguments about whether a particular design is the subject of copyright or excluded because it is design registrable. Bringing policy development together would better facilitate a holistic view on issues such as this.



17 International cooperation in IP

FICPI Australia, in principle, agrees that Australia should support opportunities to promote global cooperation on intellectual property policy through WIPO.

Having said that, **FICPI Australia** recognises that achieving international cooperation on IP law reform is extraordinarily difficult. Even relatively minor matters such as affording privilege in client communications with patent attorneys has advanced little in this international forum – being complicated by geo-political issues quite unrelated to intellectual property.

FICPI Australia considers that in practical terms, moving towards multilateral agreements on major reform is likely to be the most expeditious way in achieving policy outcomes of advantage to Australia. With sufficient weight behind multilateral reforms, there is a greater likelihood that such reforms will ultimately be taken up by the international community through WIPO.

It is the experience of **FICPI Australia** that policy development through WIPO is extraordinarily difficult, apart from the most minor and trivial matters.

18 Compliance and enforcement of IP rights

FICPI Australia has considered the Key points and discussion concerning Compliance and enforcement of IP rights and notes especially the PCs comments concerning reforms that can be made to improve outcomes for rights holders, especially SMEs.

FICPI Australia is surprised that the PC does not see a strong case to establish a dedicated IP court along the lines of the U.K.'s IP Enterprise Court (IPEC) and is not convinced that the initiated reforms of the Federal Court and changes to the Federal Circuit Court address the problem that the IPEC overcomes, namely a court having judges specialised and dedicated with IP expertise to dealing with IP matters.

The major problem faced with IP professional advisers recommending a client to commence proceedings in a court where there is no established IP expertise with the judge, is the uncertainty of the outcome. We suggest that this is the primary reason why very few IP matters are chosen to be trialed in the Federal Circuit Court.

Justice Colin Birss, responsible for setting up and operating IPEC, during the 2015 Francis Gurry Lecture specifically indicated that one of the major reasons for the success of the court, aside from the procedural changes introduced, is having a specialist IP judge deciding cases that provides a level of consistency and certainty to the parties.

The reasons given by the PC as to the potential rigidities of having a specialist judge acting against the introduction of a dedicated IP court, namely:

- the presumed lack of exposure of such judges to a wide range of legal cases and issues, “particularly when cases (such as those involving IP) often cut across multiple areas of law (such as taxation, company and contract law)”; and
- “judges involved in hearing appeals are less likely to be specialists in the original subject matter”;

appears to be contradictory, unconvincing and lacking substance.



In the view of **FICPI Australia**, we consider that the single biggest improvement that could be made to the court system to reduce cost and improve certainty, would be to adopt a dedicated IP court having streamlined procedures and flexibility along the lines of the IPEC in the UK.

FICPI Australia also notes that the PC is wholly silent on the role that IP Insurance can play in reducing the disparity that arises in reducing disputes and flagrant cases of infringement between large and small enterprises, most of which go unreported and unnoticed due to the smaller enterprise simply not having the means to contest the matter in court.

We direct the PC to the study conducted by the European Commission and published in the COMMISSION STAFF WORKING DOCUMENT – A Single Market Strategy for Europe - Analysis and Evidence, a copy of which is enclosed as Annexure 2, and in particular sections 3.3 entitled “Consolidating Europe’s intellectual property framework” and 3.3.1 entitled “a comprehensive strategy to support the use of IP by SMEs”, commencing at page 68, and the section entitled “Problem and impact “at pages 69 to 71.

FICPI Australia agrees with many of the observations and recommendations made with respect to IP Insurance in the European Commission study, and considers that the PC should investigate and support initiatives that facilitate the introduction and accessibility to cost-effective IP Insurance to all users of the IP system.