Department of Innovation, Industry, Science and Research (DIISR) submission to the Advisory Council on Intellectual Property (ACIP) *Options Paper on Patentable Subject Matter*

About the Department

The Department of Innovation, Industry, Science and Research (DIISR) strives as a key priority to encourage the sustainable growth of Australian industries by developing a national innovation system that drives knowledge creation, cutting edge science and research, international competitiveness and greater productivity. The Department is committed to developing policies and delivering programs, in partnership with stakeholders, to provide lasting economic benefits ensuring Australia's competitive future.

In line with this aim, DIISR believes that Australia's intellectual property (IP) regime should abide by the following principles. It should:

- effectively encourage innovation;
- enhance our competitiveness in a global environment; and
- be consistent with our international obligations.

Executive Summary

The ACIP Options Paper suggests changes to the *Patents Act 1990* (Cth) (the Patents Act) and provides options to address the fundamental question of what should be patentable. The changes are set out in the options paper in three parts: economic tests, social filters and enhancements.

This submission addresses each part identified by ACIP and broadly supports the approach taken by ACIP to reform the legal tests for patentable subject matter. However this submission makes a number of specific suggestions in relation to the preferred options provided by ACIP and the purpose of the patents system.

The DIISR submitted options and additional suggestions are aimed at stating the rationale for the patents system and to promote the understanding, transparency, higher quality, and lower cost of patents granted. The three suggestions in this submission for significant change to the patents system are to:

1. replace the unnecessarily vague economic ‘manner of manufacture’ test (supporting ACIP option C with amendments) with a specific restriction limiting patenting to the ‘useful arts’. Replacing the ‘manner of manufacture’ test is likely to increase the clarity of the patent system and subsequently reduce the amount of costly legal advice required by businesses to use the patents system effectively. DIISR suggests that a replacement provision be inserted into the Patents Act that explicitly maintains the restriction on patentability to the ‘useful arts’ so that mere schemes or innovations in the realm of fine arts would still be excluded from patentability. This would maintain both the certainty in the patents system and the focus of resources on economic innovation, while increasing the clarity of the system;
2. replace the ‘generally inconvenient’ social filter test (supporting ACIP option G with amendment) with a fettered discretion to exclude the granting of a patent where this is

deemed 'necessary to protect morality'[1]. This test would be based on consideration of the patent application from the perspective of the 'reasonable person' and would allow speedy, low cost and transparent incorporation of social filters in the patents system in as an objective manner as possible, acknowledging that any conceptual test using morality as a basis has some inherent subjectivity; and

3. enhance the patents system by inserting an explicit objective into the Patents Act (DIISR suggestion) to aid in interpretation of the legislation; increase the quality of Australian patents by providing a benchmark for future reform; increase the understanding of, and compliance with, the patents system by users; and align the Australian patent system with significant international competitor markets.

1. Economic Tests

The ACIP Options Paper contains four options: either to retain, clarify, replace or delete the threshold economic test for invention for patents.

DIISR submits replace 'manner of manufacture' with a 'useful arts' provision

While there is a substantial body of case law regarding the phrase 'manner of manufacture' there is little recent international jurisprudence as this phrase has been removed in all other jurisdictions that derived their law from the United Kingdom (UK), including the UK itself. Removal of the test in Australia will reduce duplication because this test overlaps with the test for inventive step and utility. It is also likely to reduce the cost of access to the patents system because legal expertise on the development of the phrase since the 17th century will not be required.

DIISR submits that the 'manner of manufacture' test should be *replaced* (using Option C proposed by ACIP but with amendments), with a specific restriction limiting patenting to the 'useful arts' in order to maintain the existing coverage of the patents system and the certainty of patent-related employment and investment. That is to ensure that the legislation explicitly deals with inventiveness under the requirement that a patentable invention involves an inventive step.

DIISR submits that the requirements of the patents system should be simplified in favour of its users, and those affected by it, particularly business. The removal of the 'manner of manufacture' test would be a reform of the patent process in favour of ease of use by inventors and business. Patent requirements that are not absolutely necessary, such as this test, have deleterious effects on business through increasing patent application costs. However, DIISR supports a minimalist approach to reform that will retain the current restriction on patenting to fields within the 'useful arts'. The definition of 'useful arts' has a body of case law. Therefore, restricting patenting to the 'useful arts' would prevent patenting in undesirable areas, for example, by impeding further overlap with copyright (noting that at the overlap of subject matter with copyright has been controversial to date in the areas of software patents and business method patents). This would allow ongoing flexibility to incorporate patents on inventions in the 'useful arts' that are not currently in contemplation (i.e. patent examination will continue to be interpreted with regard to technologies of the day without broadening the breadth of patentable subject matter significantly).

[1] As provided for by Article 27 (2) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) available at http://www.wto.org/english/docs_e/legal_e/27-trips.pdf.

As per Option C with the amendments proposed above, patents should only be granted that are 'useful', thereby more clearly excluding 'mere discoveries' from patentability. However, there is evidence that Australia's current thresholds for patentability are lower than those of our major trading partners, leading to the likelihood of broad patent monopolies and a lower presumption of validity of the scope of granted Australian patents when examined in other jurisdictions. The fact that Australian patent protection is broader than that of our major trading partners may discourage innovation as the inputs to discovery can be restricted by other intellectual property owners. The Review of the National Innovation System suggested that the level of inventive step in Australia needed to be reviewed for this reason.[2]
IP Australia is progressing this reform to the patents system and has conducted a consultation in 2009 on increasing the level of inventive step to improve the quality of future patents granted under the patents system, as discussed in the consultation paper *Getting the Balance Right*.[3]

DIISR suggests that to be effective the standards for Australian patents should be set at a similar level to Australia's major trading partners, in order to provide a comparable regulatory environment. The ACIP Options Paper suggests that deletion of the 'manner of manufacture' test on its own would further lower the level of inventive step in Australia. Consequently, the reform suggested above would need to be made in the context of increasing the requirements for patents so that the quality of Australian patents is in line with Australia's major trading partners.

Options in this section not supported by DIISR

DIISR does not support *retaining* the existing 'manner of manufacture' test (Option A). As described in the ACIP Options Paper, the 'manner of manufacture test' is opaque, old and duplicative. The current Australian legislation incorporates this phrase from the *Statute of Monopolies 1623* (UK) which has been repealed in all other jurisdictions.

Similarly *clarifying* (Option B) an opaque, old and duplicative test would add unnecessary complexity to an area of law that is already difficult to comprehend without adding a counterbalancing benefit to offset this extra regulatory burden. There can be significant costs to business in obtaining legal advice on the test as it exists and an extra layer of regulation to clarify this test may increase these costs through increased complexity, making the patents system less accessible to business than it is currently.

However, merely *deleting* the test (Option D) is also not supported because this would, in effect, extend the possibility of patenting to the fine arts. This is likely to:

- significantly increase the scope of patentability;
- decrease the quality of the patents granted;
- significantly diverge from the approach taken by our major trading partners in relation to patents;

[2] Report of the Review of the National Innovation System, Venturous Australia, 2008 (Cutler Review), Recommendation 7.2, available from www.innovation.gov.au.
[3] Available from http://www.ipaustralia.gov.au/pdfs/news/ip_reforms_balance.pdf. In this paper IP Australia has proposed increasing the level of inventive step by widening the consideration of what is 'common general knowledge' in the relevant field from that geographically limited to Australia on the date that the patent application is made, to a global consideration of 'common general knowledge' on this date. DIISR supports this proposed reform, as it is cognisant of information sharing via the Internet and, therefore, is more relevant to current and future conduct of research and development.

- duplicate an existing field of legislation (copyright); and
- dilute the existing economic focus of the patents system on the useful arts.

These likely impacts are without sufficient counterbalancing justifications for broader patent coverage.

2. Social Filters

The ACIP Options Paper contains a number of options, specifically to retain current exceptions and filters, add specific exclusions or use general filters, to address the threshold question of 'what should be patentable?'

DIISR submits replace the 'generally inconvenient' test with a test preventing the grant of a patent if this is 'necessary to protect morality' as considered by the 'reasonable person'

DIISR agrees with the statements in the ACIP Options Paper that the meaning of the 'generally inconvenient' test and its ongoing application is unclear. This uncertainty adversely impacts on all potential users of, and those affected by, the patents system, particularly business. However, the patents system should provide a mechanism to exclude undesirable inventions from being patented to enhance the integrity of the patents system, discourage investment in undesirable areas and provide a continuing social benefit.

The 'generallie [sic] inconvenient' test from the *Statute of Monopolies 1623* (UK) was originally used to ensure that patents did not unduly infringe upon trade and 'allowed the courts to make value judgements on issues of social advantage as part of their consideration of the patentability of an invention'[4]. More recently the 'generally inconvenient' test has been interpreted as a 'social filter'. For example, in Britain and Europe the 'generally inconvenient' test is expressed in terms of whether inventions are in a category 'the publication or exploitation of which would be expected to encourage offensive, immoral or antisocial behaviour'[5].

DIISR believes that the 'generally inconvenient' test should be deleted but acknowledges that a 'social filter' must be retained in the patents system. DIISR proposes a combination of the options to retain current exceptions and filters along with the use of a general filter as a replacement for the 'generally inconvenient' test (ACIP Options E and G). DIISR proposes that the current exceptions and filters should be retained but a 'reasonable person' test should replace the current 'generally inconvenient' test.

DIISR submits that a general filter could be formulated, for example, such that a patent should not be granted if the Commissioner of Patents believes that, taking into account all of the circumstances of the invention, a 'reasonable person' would consider the exclusion of the patent 'necessary to protect morality'.[6] Legally this is known as a fettered discretion for the decision maker. This particular formulation comes from the World Trade Organization's Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement). DIISR acknowledges that morality is subjective. To increase the objectiveness of this kind of social filter, the circumstances the Commissioner of Patents should take into account when applying the 'reasonable person' test in relation to a patent could include:

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[4] McKeough, Jill and Andrew Stewart, *Intellectual Property in Australia* (3rd Ed, 2004) at 341.
[5] Section 1(3)(a) *Patents Act 1977* (UK).
[6] As provided for by Article 27 (2) of the TRIPS Agreement available at http://www.wto.org/english/docs_e/legal_e/27-trips.pdf.

- whether granting the patent would unduly restrict research in the public interest in the area of the patent;
- the potential benefit to society arising from the patent being granted;
- the potential harm to society arising from the patent being granted; and
- Any other relevant factors.

A test such as the one described above introduces more objectivity to the 'social filter' test in the patents system by putting it into the realm of the 'reasonable person'. The definition of 'reasonable person' has been established through a large body of case law. Further, the 'reasonable person' test is flexible as it allows for inventions that are yet to be conceived and changes in societal attitude without constant amendment to the legislation. This approach would also maintain compliance with Australia's international obligations under the TRIPS agreement.

The approach described above would provide certainty around the encouragement of research and knowledge dissemination through the grant of patents, while providing a reasonably flexible, transparent, objective, fast and inexpensive mechanism to accommodate a social filter into the patents system.

Options in this section not supported by DIISR

DIISR does not support the use of *specific exclusions* (Option F) as this process is not technologically neutral and would require constant legislative updating to remain relevant to new developments in technology and shifts in community attitudes. There is also the risk that much of the burden in deciding whether or not a technology is or is not patentable by reference to specific exclusions would fall to the Patent Office, a task for which it is not designed.

3. Enhancements

The ACIP Options Paper contains a number of options to enhance the patents system, in relation to inventiveness, usefulness and the creation of an advisory panel.

DIISR supports ACIP's proposal under the heading *inventiveness* (Option H, but not references to alternatives B and D, see above for a full explanation of DIISR's amended Option C) as it relates to 'inventive step' as discussed in section 1. DIISR also supports ACIPs proposal on *usefulness* (Option I) for the reasons stated in the ACIP Options Paper and as discussed in the DIISR submission[7] to IP Australia's consultation paper *Getting the Balance Right*.[8] To be clear, it is critical that all the reform processes currently contemplated in this area of law are complementary and work together to ensure that the level of inventive step is in fact raised above the current level. These combined changes are likely to ensure that the standards for Australian patents do not drop below that of our major trading partners.

DIISR submits that objectives of the patents system should be made explicit

Examining patentable subject matter has necessitated a close examination of the objectives of the patents system. DIISR proposes that an explicit statement of objectives be inserted into the Patents Act to increase the understanding and ease of interpretation of the legislation to the benefit of all users of the patent system.

[7] DIISR submission to IP Australia Consultation Papers *Streamlining the patent system* and *Flexible search and examination.*

[8] Available from http://www.ipaustralia.gov.au/pdfs/news/ip_reforms_balance.pdf

If there is no explicit statement of objectives, as is the case currently with the Patents Act, then the objectives of the legislation are often set out in the Second Reading Speech made to Parliament by the relevant Minister. As such the Second Reading Speech can be an invaluable tool for the courts and the public in interpreting the intent of the legislative provisions but "…[t]he words of a Minister must not be substituted for the text of the law"[9].The courts are able to take into account further extrinsic evidence such as explanatory memoranda[10] in order to aid in the interpretation of legislation; however, there are an increasing number of statements to the effect that explanatory memoranda are unreliable[11].

An explicit and authoritative statement of objectives provides an unambiguous rationale which could have a number of benefits, including in assisting:

- legislators in evaluating the current legislation and future amendments;
- the courts in interpreting specific provisions;
- the public, patentees and their competitors in understanding the purpose of the patents system; and
- in reduced costs, particularly business costs, through focussing legal disputes on clearly contested areas through an explicit objective of the patents system.

A concise authoritative explanation of the purpose of the patents system may also result in an increase in the quality of patent applications and subsequently granted patents. The United States[12] and Japan[13] have explicit statements of objective for their patent systems. Aligning the Australian patents system with these two successful[14] intellectual property markets may facilitate innovation and technology transfer into the Australian market. As DIISR has proposed in a recent submission to IP Australia,[15] such an objective could be based on the words used to describe the objective of the TRIPS Agreement:

The protection and enforcement of patents should contribute to the:

- the promotion of technological innovation;
- the transfer and dissemination of technology;
- the mutual advantage of producers and users of technological knowledge;
- social and economic welfare; and
- providing a balance of rights and obligations.

A definition such as this would not only aid in the understanding and interpretation of the legislation but would clearly be compliant with Australia's international obligations under the TRIPS Agreement.

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[9] *Re Bolton; ex parte Beane* (1987) 162 CLR 514 per Mason CJ, Wilson and Dawson JJ at p 518.
[10] Section 15AB(2) *Acts Interpretation Act 1901* (Cth).
[11] Third Report of 2004 of the Senate Scrutiny of Bills Committee.
[12] Section 8(8) if the US Constitution: "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries".
[13] Article 1 *Japanese Patent Act:* "The purpose of the Patent System is to encourage inventions by promoting their protection and utilization so as to contribute to the development of industry".
[14] http://www.jpo.go.jp/cgi/linke.cgi?url=/torikumi_e/hiroba_e/doukoue.htm.
[15] DIISR submission to IP Australia Consultation Papers *Streamlining the patent system* and *Flexible search and examination.*

Options in this section not supported by DIISR

DIISR does not support the establishment of an *advisory panel* (ACIP Option J) to advise the Commissioner of Patents on the application of social filters to the patentability of inventions. This is because such a panel:

- may result in considerable administrative costs in establishing and supporting an advisory panel;
- may initially have a high workload associated with the panel's establishment, but afterwards it will probably have a low ongoing workload (as social filters are unlikely to require frequent adjustment once established);
- may be difficult to put together, as it must be a sufficiently diverse yet workable panel that deals with a wide range of technologies;
- has an inherent risk that the exact approach taken to any issue may be dependant upon the makeup of the panel as well as the associated risk that differently constituted panels may make inconsistent decisions;
- may result in little opportunity for transparent publication or review of advice due to its proposed role; and
- is likely to require a lengthy process to consider moral issues in detail.

DIISR thanks ACIP for the opportunity to make this submission.