

Comments on the July 2008 Patentable Subject Matter Issues Paper
of the Australian Advisory Council on Intellectual Property
by Microsoft Corporation
September 19, 2008

Microsoft is grateful for the opportunity to share preliminary comments on the July 2008 Patentable Subject Matter Issues Paper produced by the Australian Advisory Council on Intellectual Property (ACIP). We trust that our response today is a first step in an ongoing dialog with the ACIP. To that end, we view these comments as preliminary and would be honored to provide additional information as needed for further consideration of these important issues, and we welcome future opportunities to participate in Intellectual Property (IP) round table discussions or one-on-one discussions with ACIP and other interested parties in Australia.

We are in general agreement with the overall observations and considerations reflected in the Issues Paper. We applaud Australia's willingness to objectively study the appropriateness of its existing laws and for initiating this important process of open discussion with industry stakeholders such as Microsoft. Careful analysis and consideration are appropriate given the significant issues and challenges presently facing the global IP system and their impact on local Australian interests. We believe the Issues Paper reflects not only an insightful analysis of these relevant issues, but also incorporates an appropriate balancing of interests of IP owners, of other affected parties, and society in general. In particular, we appreciate the desire to maintain Australia's long and successful record of pro-IP policy, while at the same time recognizing that patent rights do not exist merely to benefit patent owners, but are a key element in the cycle of innovation that benefits all members of society in today's era of global markets and economics.

We have noted in the text below our response to many of the 12 questions identified in Part 11 of the Issues Paper.

Question 1 – Economic objectives of limiting patentable subject matter (Part 3)

Can placing limits on inherently patentable subject matter be justified on economic grounds?

Microsoft Response:

In our view, the fundamental rationale of the patent system is primarily economic. Because the primary function of patent law is one of economic regulation, "placing limits on inherently patentable subject matter" must be clearly justified on economic grounds. The fundamental question is whether limiting subject matter is an *effective* means of achieving ultimate economic policy goals, and, if so, *what type* of limitation will be effective in furthering such goals.

We strongly believe that any limitation on subject matter must be based on fundamental principles and concepts regarding the role of intellectual property in supporting innovation, and

that they should not include technology-specific exclusions from patentability. Experience with various technology-specific subject matter exclusions has led us to a view that is very similar to the one expressed by IP Australia in the context of ALRC Report 99 (*Genes and Ingenuity: Gene Patenting and Human Health*):

Such measures invariably lead to uncertainty over the bounds of the subject matter, involved debate over individual cases, and increased cost and uncertainty for users of the system. Such measures may eventually prove at least partially ineffective, as it may be possible to draft claims to avoid the intent of the exclusion. Defining the bounds of a technology is a non-trivial issue.

We also agree in part with the conclusion contained in the Intellectual Property and Competition Review Committee report, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (2000), that:

it is also clear, both from general principle and from the European experience, that formulating such *ex ante* rules entails high direct costs. Even more importantly, they can create significant error costs associated with the under or over-inclusiveness of the rules.

More specifically, we believe that it is exceptionally difficult (and perhaps impossible) to accurately assess the incentive effects of patent protection either on an invention-by-invention or technology-by-technology basis. Moreover, in our view, the incentive effects of patent protection vary widely within fields of technology, and can have a strongly disparate effect even in the context of closely-related inventions. Thus, we believe that inclusion or exclusion based on specific technological characteristics is almost never justifiable. Rather, any limitations or exclusions should seek to identify the subject matter at issue based on technology-neutral characteristics.

Thus, we consider some broad, concept-based (as opposed to technology-based) *limitations* as being relatively effective for screening out inappropriate subject matter. For example, the widely-adopted exclusions relating to “mere discoveries” appear to be efficacious with respect to excluding subject matter that is inappropriately vague or abstract. Similarly, a variety of positive requirements – such as industrial applicability, practical utility, inventive step, and reduction to practice – also appear to effectively limit the scope of patent-eligible subject matter.

Finally, with respect to the question of whether “the subject matter of each individual invention be [should be] assessed to determine whether a patent is necessary to encourage innovation, or should such an assessment be done for entire fields of technology” it is unclear to us whether the premise underlying this question is a valid one. It seems unlikely that any government entity (or any single private-sector entity) would have sufficient information to “determine whether a patent is necessary to encourage innovation” either on a case-by-case or technology-by-technology basis.

Predicting the incentive effect of patent protection (*i.e.*, whether protection is “necessary to encourage innovation”) for an area or field of technology would require an comparison of the expected benefits a patentee (or group of patentees) derive from patent protection to the expected cost (including opportunity costs) that would be incurred as a result of inventive endeavors. Importantly, the incentive effect depends on inventors’ expectations about the future, which would be inherently difficult for any third-party to assess contemporaneously, let alone predict *ex ante*. Even if it were possible to do so, it seems very unlikely that sufficient information about the cost of inputs to inventive endeavors and the true opportunity costs of focusing efforts and resources on one project or field of technology instead of another would be available to allow an accurate *ex ante* determination regarding whether patent protection would be a necessary incentive with respect to a particular inventive activity or outcome.

In sum, we are skeptical that a sufficiently accurate assessment of this type can be conducted *ex ante* in a manner that would justify the relatively narrow exclusions to subject matter that some have advocated and would urge that consideration be limited primarily to broader, concept-based limitations.

Question 2 – Economic effect of inherent patentability test.

What would be the consequences on innovation of imposing or removing limits on patentable subject matter? Are you aware of any empirical data on such consequences?

Microsoft Response:

The probable economic effects depend on the type of limitation at issue. Some limitations, such as those based on inventiveness, may increase the economic benefits of the patent system overall. Narrower, technology-specific exclusions will – at a minimum – increase cost of patenting or restrict scope of protection, distorting the incentive structure in ways that typically will decrease patenting and inventive investments in the affected field of technology.

Question 3 – Ethical reasons for limiting patentable subject matter (Part 4)

Can placing limits on inherently patentable subject matter be justified on ethical grounds? Is it appropriate for legislation to predetermine ethical limitations on patentable subject matter, or is it more appropriate for courts to determine such limitations on a case-by-case basis? Is patent law an appropriate avenue for dealing with ethical issues? If not, what is an appropriate avenue?

Microsoft Response:

We agree with the general approach as stated in Article 27(2) of the TRIPS Agreement that subject matter may be excluded from patentability in the event it is necessary to prevent the commercial exploitation of given inventions to protect *ordre public* or morality. The TRIPS Agreement provides examples of such exclusions, “including to protect human, animal or plant

life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by their law.”

However, in terms of legal clarity, efficiency of administration, and overall effectiveness, we believe that directly prescriptive laws that target the primary behavior at issue are vastly superior. That is, the prohibition of commercial activities for which there is scientific evidence that demonstrates that human or animal life or the environment is threatened. Moreover, legal prohibition of the targeted behavior is very likely to deter related patenting for a number of reasons (e.g., by restricting available funding for R&D due to the prohibition on the research activity). Finally, because a direct proscription more clearly defines the objectionable conduct or ethical norm, such an approach is likely to be superior not only with respect to effective application, but also with respect to the expressive or communicative function of the law (i.e., the law as a moral teacher or ethical expression).

Even if it were determined that certain ethical norms were best implemented by means of economic regulation, rather than direct proscription, there are other legal mechanisms that may be better suited to such a task (e.g., differential tax treatment).

Question 4 – Ethical effect of inherent patentability test.

What would be the ethical consequences of imposing or removing limits on patentable subject matter? Are you aware of any examples of such consequences?

Microsoft Response:

We have no further input at this time beyond the response to Question 3 above.

Question 5 – Other reasons for limiting patentable subject matter.

Other than economics, ethics and national security, can placing limits on inherently patentable subject matter be justified on any other grounds?

Microsoft Response:

We believe these categories are the most appropriate to consider.

Question 6 – Content and structure of current Australian law (Part 7)

Does the content of current Australian law meet the objectives of the system? Are decision makers focusing on the appropriate principles? Is the legislative structure of current law appropriate for the content? Is the current law clear to decision makers and users of the system? Does the content or structure of the current test cause you any significant problems?

Microsoft Response:

We believe overall that the present Australian law satisfactorily meets the fundamental objectives of IP law.

Question 7– Issues with current Australian law

Do you have any comments on issues A to H identified in Part 11.3.1?

- *combination of flexible and proscriptive tests*
- *value of existing body of case law*
- *general inconvenience, mischievous to the state and hurt of trade*
- *archaic language*
- *threshold of inventiveness*
- *threshold of utility*
- *scope of rights awarded*

Microsoft Response:

Regarding the “*combination of flexible and proscriptive tests*” - As previously discussed, we believe strongly that broad tests, based on basic principles and concepts, are – in the vast majority of contexts – more appropriate and effective than specific proscriptions.

Regarding “*archaic language*” - We believe that the manner in which the courts have interpreted and applied the current language is both appropriate and beneficial from a policy perspective. We do not believe that “modernization” of the “manner of manufacture” test is necessary at this time.

Regarding “*threshold of inventiveness*” - We believe that the current threshold for inventiveness with respect to traditional utility patents is appropriate in most instances. However, we have become concerned that the “innovative step” test for innovation patents is too low a threshold to allow such patents to serve the public welfare. Too often, innovation patents appear to be directed to inventions that are sufficiently obvious or predictable extensions of the prior art that the innovation would have occurred in the normal course of commercialization. In such instances, granting an exclusive right does not increase innovative activities, but rather has the potential to decrease them.

Regarding “*scope of rights awarded*” - We believe the current scope of rights is appropriate and beneficial.

Question 8 – International integration

Is it more important to achieve best practice or to harmonize with a major jurisdiction? Are any jurisdictions preferable over others?

Microsoft Response:

Achieving best practices and pursuing harmonization are not always mutually exclusive in our view. Both should be pursued in a balanced and thoughtful manner so that harmonization pursuits among jurisdictions do not overshadow or negatively impact the foundation of best practices within an individual jurisdiction.

We recognize and acknowledge the continuing pursuit of best practices within each jurisdiction, and consider the continued commitment to establishing such practices as being essential to the basic mission of each jurisdiction. Without best practices, quality patents are not possible at an affordable price or on a timely basis.

We have no comments regarding a preference of one jurisdiction over another. Instead, we believe it is important to investigate procedural and substantive harmonization possibilities for the mutual benefit of multiple jurisdictions and patent applicants.

Further to the topic of harmonization among jurisdictions - from an applicant's perspective, we would like to acknowledge that great strides have been achieved among jurisdictions with procedural harmonization and work sharing initiatives. These procedural and work sharing initiatives across jurisdictions are an important first step and are essential to building trust and common frameworks among jurisdictions. Without this trust and common framework, more challenging substantive harmonization issues such as laws and interpretation of laws will be difficult. We also encourage the offices to invite patent applicant stakeholders to collaborate in the development and testing of best practices and harmonization initiatives. Microsoft would be honored to contribute to these efforts.

Question 9 – International compliance of current Australian law

Is current Australian law compliant with our international obligations?

Microsoft Response:

Microsoft does not have a formal opinion on this question at this time. Nevertheless, we believe international compliance among countries is essential as a foundational element of a healthy global economy and a platform for further harmonization efforts.

Question 10 – Preferred patentable subject matter

According to what you believe are the appropriate objectives and constraints of the patent system, what sorts of subject matters do you think should be inherently patentable and what should not? Would your preferred content be compliant with Australia's international obligations?

Microsoft Response:

As previously discussed, we believe that objectively established and appropriately applied objectives and constraints will distinguish between inventions that are patentable and those that are not.

Question 11 – Legislative structure

What sort of legislative structure would be appropriate to achieve your preferred content identified in Question 10? Are any foreign structures preferred? In principle, when should statutory provisions excluding specific subject matters be used? Should such provisions be expanded, such as by including the exceptions from patentability allowed under TRIPS?

Microsoft Response:

We have no further comments at this time.

Question 12

Do you have any other comments?

Microsoft Response:

We have no further comments at this time.