Submission to IP Australia

Consultation on an “Objects Clause” for the *Patents Act 1990*

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IP Australia has asked for comments on two options put forward as a potential “Objects Clause” for the *Patents Act 1990* (the 1990 Act). In brief, while, of the two, I prefer Option B, I do not consider that it goes far enough. The reasoning that supports my responses is set out below. There are four parts to that reasoning: (1) an explanation of the value of an Objects Clause; (2) a description of what I understand the purposes of the patent system to be; (3) an analysis of the relevant stakeholders in the patent system; and (4) an explanation of a couple of other “tweaks” to the proposed clause that I am suggesting.

In terms of my background, I am an Associate Professor in the School of Law at Murdoch University. Prior to my appointment here, I was at the Intellectual Property Research Institute of Australia, at the Melbourne Law School, for ten years. The majority of my research has been in the area of patent law – focusing on its conceptualisation, its history and on empirical explorations of how the patent system operates in the “real world”. This submission is informed by the research I have carried out into the patent system.

**The Value of an Objects Clause**

It would be difficult to argue against the opinion of the Advisory Council on Intellectual Property (ACIP), the Productivity Commission and IP Australia. That, in itself, is not a sufficient reason to support the inclusion of an Objects Clause. The support for such a Clause given here is in addition to the arguments provided by ACIP\(^1\) and the Productivity Commission\(^2\) and is not meant to be contrary to their arguments.

If any statute is intended to regulate the behaviour of individuals who are subject to it, then there is value in considering the insights of regulatory theory when constructing (or amending) that statute. In other words, of an Act seeks to ‘control, order or influence the behaviour of others’,\(^3\) then it can be seen to be attempting to regulate the behaviour of those individuals. Research in the area of regulatory theory acknowledges the value of the ‘visibility’ of the regulation with respect to the behaviour being sanctioned.\(^4\) This means that the effectiveness

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of the 1990 Act will be enhanced if the underlying purpose of its provisions are more clearly articulated to those who are bound by the statute. Expressed differently, ‘clarity’ around the purposes of the 1990 Act (or any Act) will facilitate the promulgation of desired norms of behaviour.\(^5\) An Objects Clause along the lines of Options A and B will, necessarily, enhance that clarity. It is acknowledged that there may be some short-term uncertainty around the extent to which an inserted Objects Clause modifies the application of the 1990 Act;\(^6\) in the longer term, however, the Clause will contribute to the ongoing effectiveness of the 1990 Act through its articulation of its underlying purposes.

The Purposes of the Patent System

Before discussing what those purposes are, first I acknowledge and support IP Australia’s inclusion of the term “patent system” in Option B. The system is more than just the 1990 Act. As such, the 1990 Act should be read in terms of its role within that broader system.

The longevity of the patent system supports the observation that the system may have prioritised different purposes at different stages of its operation. Historically, the system has focused on the benefits that arise from the introduction of new knowledge to a country.\(^7\) It is, therefore, uncontroversial to highlight the importance of knowledge to the system (though a question may remain about whether it is knowledge in general, “technical” knowledge or “commercialisable” knowledge). More recently, ACIP noted three purposes of the system – two of which related to knowledge (those being the dissemination and commercialisation of knowledge). The third is ‘to provide incentives to innovate’.\(^8\) It is not clear that the “incentive” role of patents should have equal prominence relative to that of knowledge – given the fact that significant levels of innovation takes place without patents\(^9\) and that it has been shown, at least overseas, that patents are sought for multiple purposes.\(^10\)

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9. Such as in those industries that rely on trade secrecy. Even within those industries that use patents, levels of patenting vary from sector-to-sector: see, for example, the discussion in B. Hall and D. Harhoff, Recent Research on the Economics of Patents, NBER Working Paper 17773, 2012.
10. Reasons, beyond the protection and exchange of innovation, include to create ‘retaliatory power against competitors’; create ‘better possibilities of selling licences’; provide ‘motivation for employees to invent’; provide a ‘measure of R & D productivity’; and to improve the ‘corporate image’: O. Granstrand, The Economics and Management of Intellectual Property: Towards Intellectual Capitalism, 1999, 78. Other reasons that have been
That patents are not necessary for innovation opens up the possibility that the system may have another economic purpose. In other words, the system needs a purpose regardless of why patentees sought their patents (or whether the inventions would have been created but for the patents). In this respect, I would argue that the 1990 Act regulates, or at least facilitates, the exchange of rights to use patented inventions – in short, the Act privileges the technology transfer and commercialisation purposes of the system. More specifically, the 1990 Act:

- Authorises the transfer of patent rights (s. 13);
- Sets out the rules by which the owners of the rights may seek redress when their inventions have been used without their permission (the infringement provisions as well as the provisions giving specific courts jurisdiction in patent matters);
- Provides for contractual conditions relating to the exchange of patent rights that are void (Chapter 14);
- Establishes the Register of patents that allows for the accountability of people claiming patent rights in an invention (Chapter 19); and,
- Details when inventions may be used (being a transfer of the right to use) without the permission of the patentee (provisions relating to compulsory licences, Crown use and the various infringement exemptions).

That the Act itself reflects the dissemination and commercialisation of knowledge purposes of the system suggests that these are the purposes that should be privileged in any Objects Clause for the Act.

By way of historical explanation, the implicit purposes of the current Act reflect the purpose of the patent law reforms of the nineteenth century. It is trite to say that the patent system extends back to the early modern period in England. An understanding of its current settings, however, does not need to cover 450 years of legal history. This is because the “root-and-branch” reforms of the nineteenth century were sufficient to reset the system’s purposes. It was under the Patent Law Amendment Act 1852 (the 1852 Act) and the Patents, Designs and Trademarks Act 1883 (the 1883 Act) that most of the provision listed above were introduced.

into the system. Importantly, these provisions can be seen to match the worldview, and the key foci, of classical economics – the dominant body of economic thought at the time.  

What this means is that the current system fits nineteenth-century economic ideas better than those laid out under neo-classical economics. In short, not enough has changed in the way the system operates for the fundamental purpose that underpins it to have changed. While it is unlikely that most economists will change their models with respect to the role of incentives, the reference to the “transfer and dissemination of technology” in the proposed Objects Clauses (and the TRIPs Agreement) is sufficient to reflect the “regulation of exchange of rights to use” understanding of the patent system.

**Patent System Stakeholders**

One key difference between the two “Objects Clauses” proposed by IP Australia in their Consultation Paper relates to the stakeholders that are included in each. My argument is that neither go far enough in this respect. Option A refers to ‘producers, owners and users of technology’ and Option B refers to ‘producers, owners, users of technology and the public’. The IP Australia proposal from the earlier consultation process on the Objects Clause included ‘patent applicants’; and, since then, the New Zealand Patents Act 2013 adds ‘inventors’. Presumably the terms ‘producers’ and ‘owners’, in the current proposals, are intended to cover “applicants” and “inventors”. Neither Option refers to the competitors of the patentees; and neither proposal, in its reference to the ‘users of technology’, differentiates between downstream manufacturers and the consumers of products that incorporate the technology.

Each of these categories has a different “relationship” with the patent system and each has different interests that may be taken into account when interpreting the 1990 Act.

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12 For a more complete discussion of this point, see C. Dent, ‘The Purpose of Patents for Invention: Regulation of Exchange vs Incentive’ [2017] *Intellectual Property Quarterly* 245.

13 Behavioural economists, on the other hand, may be less fixed in their ideas. For an attempt at applying concepts from that more recent body of economic thought, see C. Dent, ‘Decisions around Innovation and the Motivators that Contribute to Them: Patents, Copyright, Trade Marks and Know-how’ (2016) 6 *Queen Mary Journal of Intellectual Property* 435.

14 Though a pedant may note that an applicant is yet to be an owner and may not have been the producer of the invention.

15 The Consultation Paper points out that ‘competitors, downstream users of technology and consumers of products that incorporate the technology’ were referred to in submission to the previous consultation process. IP Australia, however, did not explain why the more expansive listing of stakeholders was not included in Option B.
To repeat the argument made in my previous submission, the interests of a patentee’s competitors need to be considered as it they who are most immediately affected by the “quality” of the rights granted under the 1990 Act. Again, it is almost as trite to refer to the tension between patents and competition policy. It is, of course, the competitors of the patentees who are most inconvenienced by patent rights that should not have been granted or those that exceed the scope of the underlying invention. Currently, the 1990 Act makes provision for their interests in Parts 2 and 3 of Chapter 11; and, in effect, it is the competitors who take advantage of the provisions in Chapter 5. There would be value, therefore, in formalising their interests by including reference to competitors in the Objects Clause.

Historically, the competitors of the patentees were central to the reforms of the patent system. For example, the first Act focusing on patents for invention after the Statute of Monopolies, Lord Brougham’s Act 1835 (the 1835 Act), included a provision requiring a patentee applying to extend their patent to advertise in the London Gazette three times, in three London papers and three times in a paper that is local to the patentee’s place of manufacture. This provision, therefore, gave the patentee’s competitors notice of the application in case they wished to mount a challenge to it. The registers under the 1852 Act allowed competitors, and other interested parties, to see what inventions were in the market, and who owned them, so that they know what they had to avoid or what they could license. Further, the “groundless threats” provision, introduced in the 1883 Act, provided recourse to competitors who were being “bullied” by a patentee. In the same spirit of unfair competition, the 1835 Act sanctioned manufacturers from falsely claiming a product was protected by a patent – as such a claim may give that manufacturer an unjustified advantage in the market. Perhaps the strongest example of “empowering” competitors was the introduction of the opposition procedure in the 1852 Act – whereby a competitor could challenge a patent before it was granted. While this procedure also operated as a mechanism to assess the novelty of an invention (at a time when there were no examiners for novelty in the Patent Office), it also provided the competitors with the opportunity to protect their own market share through preventing undeserved patents to distort that market. In short, since the reforms of the nineteenth century, the patent system has paid particular attention to role, and interests, of competitors as well as those of patentees.

16 To IP Australia’s Patentable Subject Matter paper in 2013.
17 Section 4.
18 Section 32.
19 Section 7.
20 Section 12.
The operation of the system as a market featuring inter-related players is evident in the literature.\textsuperscript{21} Empirical work into patenting within the pharmaceutical sector shows that a range of entities are involved in patenting – including large research-intensive pharmaceutical companies, small start-up pharmaceutical companies, manufacturers of generic pharmaceuticals, hospitals, universities, government agencies and individuals.\textsuperscript{22} The research shows that, despite large companies owning the patent over the active pharmaceutical ingredient, those patentees do not monopolise innovation around that drug. This means that the system already allows the competitors of the patentees, and others, to operate in the same market without any specific acknowledgement of their interests; it does not, however, mean that competitors and others should not be accorded greater acknowledgement – such as by way of reference in the Objects Clause.

With respect to other stakeholders, it also may be worth distinguishing between the interests of downstream users of the technology and the consumers of any product that contains the patented invention. Again, the interests of the two groups are different. Downstream users of the technology may have no option but to use the patentee’s invention – such as where the patent relates to an industry standard; whereas consumers may have greater choice between using a product using a particular patent (even if the choice is only between buying a product containing the invention or buying nothing at all). The greater the impact of the system on the actions of a third party (such as through a restriction in available choices), the greater the need for their interests to be considered when interpreting the 1990 Act. In turn, the differing constraints on the decisions of these two categories of stakeholders may be sufficient to list them separately in any Objects Clause. I am not convinced of the need to list them separately; however, I raise the possibility in case others are (and would support such separate acknowledgements, should the possibility be taken more seriously).

Not all stakeholders, however, may need to be referred to. While the attorney profession is, of course, another stakeholder, it is not clear that the interests of the profession need to be balanced along with the interests of the other stakeholders. This is because, unlike the other stakeholders, attorneys do not have an interest in the exchange of inventions and inventions (beyond their interest as members of society); further, they do not have an interest in whether the patent rights acted as incentive to the invention. Attorneys are, and are only, the intermediaries by which an

\textsuperscript{21} It has also been acknowledged in the case law – for an example of the balancing of interests of patentees and their competitors, see \textit{Genentech’s Patent} [1989] RPC 147, 259.

entity (whether it be the inventor or just the applicant) may effectively gain the patent rights that the entities are entitled to. So, the profession has an interest in the system being usable and efficient but do not have a specific interest in the outputs of the system.  

Preference of Proposed Objects Clauses

Based on the above reasoning, I support a modified form of Option B:

The purpose of this Act is to provide the framework for a patent system on Australia that enhances the wellbeing of society by promoting technological innovation and the transfer and dissemination of technology. In so doing, the patent system should take account of the interests of producers, owners, users of technology, competitors of patentees, and the public.

The final two suggested changes should be explained. The inclusion of the phrase “the framework for” is to emphasise that the 1990 Act is not the system. The system may be seen to, at least, include all obligations and limits of behaviour that are founded on the 1990 Act. These, obviously, include the Patent Regulations 1991 and the interpretations of the 1990 Act as laid out by the courts, as well as the operationalisation of the tests of patentability (and other actions of examiners) set out in IP Australia’s Manual of Practice and Procedure. It could also, without too much imagination, be seen to include the behaviour of patent attorneys (at least as it relates to their profession) through the 1990 Act’s power to deregister an attorney and the requirement for the continuing education of attorneys laid out in the Regulations. Without the inclusion of words like “the framework for”, the Act may be seen to be synonymous with the system. There is value in reinforcing, in the Objects Clause, the fact that it is not synonymous with the system.

Finally, the phrase “balance over time”, used in the two Options, has been replaced with “take account of”. The purpose of this change is to acknowledge that, for policy reasons, the

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23 That said, all stakeholders have an interest in the proper regulation of the profession. The 1990 Act provides for a set of minimum standards for entry into the profession and a mechanism for the deregistration of attorneys – both of which give patent applicants greater faith in their dealings with attorneys. Further, it has been suggested that the advice provided by attorneys to their clients is important for the public policy objectives of ‘sustaining the economy’ and ‘maintaining the patent system’: C. Dent, E. Hall & A. Christie, ‘For the Health of the Economy and Patent System: Rationale and Scope of Patent Attorney Privilege’ (2009) 4 Journal of Intellectual Property Law and Practice 23, 29-30. This suggests that the proper operation of the profession is of interest to everyone who engages with the patent system. This suggests that the regulation of the profession should remain within the provisions of the 1990 Act (not that there has been any call to have it excised); however, this is not a sufficient justification for the inclusion of the profession in the Objects Clause.

24 While, it may be noted that ACIP, the Productivity Commission and IP Australia simply assert that the interests of the different stakeholders should be “balanced”, ACIP also said that the ‘patent system must take account of both economic and ethical matters’: Patentable Subject Matter Report, 2010, 29.
interests of all groups may not be balanced over time. It would be better to highlight that, when the Clause is being used to interpret a provision of the Act, the interests of all parties should be considered in that interpretation – even if the interests of some stakeholders are likely to be permanently disadvantaged by that interpretation. Further, and more pragmatically, the goal of balancing interests could suggest an empirical analysis of the impact of the law, whereas a decision can be seen, on its face, to have taken account of the range of interests.

In summary, I am supportive of the inclusion of an Objects Clause in the 1990 Act. Of the two versions included in IP Australia’s Consultation Paper, my preference is for Option B. Ideally, however, the that version of the Clause would be modified in line with the recommendations discussed in this submission.

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25 Further, without giving guidance to the time period included in the balancing, the interests of one category of party could be significantly prioritised for a decades, with the assumption that the interests of the other categories would have to be prioritised later – this may not be effective in serving the medium term interests of all parties to the patent system (including the public).