

31 October 2016

Business Law
Building, Resources and Markets
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140

By email to: ip.policy@mbie.govt.nz

Dear Sir/Madam

**Divisional Patent Applications
Possible Changes to the Transitional Provisions in Section 258 of the Patents Act 2013
Submissions by Fisher & Paykel Healthcare Limited**

1. This submission is made on behalf of Fisher & Paykel Healthcare Limited (“FPH”). I am the General Manager Intellectual Property of FPH. We also request the opportunity to be heard on this matter, if possible.

Summary

2. FPH wholeheartedly supports the proposal to amend the transitional provisions relating to divisional patent applications in the Patents Act 2013 (“the 2013 Act”).
3. The existing transitional provisions create a double-standard undermining the purposes of the 2013 Act and resulting in considerable uncertainty for third parties, and in particular New Zealand-based manufacturers like FPH.
4. While it is encouraging to see action being taken towards addressing this significant issue, it is deeply concerning that the amendments are not expected to be implemented for quite some time yet. It is critical to the competitiveness of New Zealand’s manufacturing industry that this matter is addressed as soon as possible to level the playing field with foreign competitors, and FPH urges the Ministry and Parliament to expedite implementation of the amendments.
5. FPH favours the third of the proposed options for addressing this issue, whereby future patent applications divided from applications made under the Patents Act 1953 (“the 1953 Act”) will be examined in accordance with the stricter requirements of the 2013 Act. This option is most consistent with the purposes of the 2013 Act, including balancing the interests of patentees and society as a whole, complying with international obligations, ensuring that patents are granted only in appropriate circumstances, and providing greater certainty that patents will be valid after grant.

Background

Fisher & Paykel Healthcare Limited

6. FPH is a New Zealand headquartered manufacturer of healthcare products including respiratory humidifiers, breathing circuits and CPAP equipment. It is the leading global supplier of respiratory humidification equipment for hospital care, and also has a substantial share of the global market for pressure support systems for treating sleep apnea.
7. FPH exports products to over 120 countries worldwide, with 73% of those products being manufactured in New Zealand. It employs 2,142 staff in New Zealand, with over 500 engineers and scientists in research and development roles. In the last financial year, FPH invested \$73.3 million dollars, or 9% of operating revenue, in research and development.¹
8. FPH competes with companies based in the USA, Australia, France, and Germany, among others, who are extensive users of the patent system.
9. FPH is also an extensive user of the patent system worldwide, and respects the valid intellectual property rights of its competitors. We have in place robust freedom-to-operate processes to ensure that new products do not infringe any such rights. However, the low threshold for patentability under the repealed Patents Act 1953 allowed patent applicants to obtain unduly broad patents which were frequently invalid, threatening FPH's ability to continue manufacturing products in New Zealand.

The Patents Act 1953

10. For a long time, FPH and other New Zealand-based businesses were handicapped by the antiquated Patents Act 1953 ("the 1953 Act") tilting the playing field heavily in favour of foreign patentees. Patents were too easily obtained, overly broad, and often invalid. The 1953 Act was based on the UK's Patents Act 1949, repealed by the Patents Act 1977 which was enacted to address many of the issues which have persisted in New Zealand for almost a further 40 years.
11. Unlike virtually every other OECD nation, patent applications made in New Zealand under the 1953 Act were not examined for inventive step, which is nonetheless fundamental to the validity of a granted patent. Applications were also subject to a lenient fair basis requirement giving the applicant considerable flexibility in what they could claim as their "invention" (often only with the benefit of hindsight following the release of competitors' products, and/or not practised by the patentee themselves), and the applicant was given the benefit of the doubt on patentability. Competitors, on the other hand, were given little notice of patentees' exclusive rights due to publication of applications occurring only shortly before grant, and faced a heightened burden of proof if they wished to oppose grant of the patent on the ground of lacking inventive step. The courts described opposition proceedings as being merely "designed to clear the Register of patents which are *manifestly untenable*"² with only a "*scintilla of invention*" being sufficient to uphold acceptance of a patent application.³
12. A granted patent, even if invalid, entails at least some degree of risk as to one or more of an interlocutory injunction, permanent injunction, damages or an account of profits, and delivery up. The stakes for local companies far outweigh those for foreign entities – while the latter risks an injunction preventing sales of their products only in New Zealand (generally an insignificant market in worldwide terms), a New Zealand manufacturer risks an injunction preventing all manufacture of their products in New Zealand for sale anywhere in the world. An injunction, even if granted only on an interlocutory basis pending revocation of the patent in a counter-claim

¹ Fisher & Paykel Healthcare Limited, 2016 Annual Report.

² *General Electric's (Cox's) Application* [1977] RPC 421.

³ *Samuel Parks v Cocker Bros.* 46 RPC 241.

for invalidity, therefore has very serious consequences for New Zealand manufacturers, and continued examination under the 1953 Act thereby discourages manufacturing in New Zealand.

13. As noted by the Commerce Committee's commentary during passage of the Patents Act 2013 (emphasis added):⁴

The Patents Act [1953] is modelled on the now repealed United Kingdom Patents Act 1949, and has a low threshold for patentability compared with most other countries. This low threshold can lead to broader patent rights being granted in New Zealand than in other countries, which can disadvantage New Zealand businesses and consumers, as technology that may be freely available in other countries can be covered by patents in New Zealand. This can discourage innovation and inhibit growth in productivity and exports.

Patents Act 2013

14. For the above reasons, FPH welcomed enactment of the Patents Act 2013, under which applications are subjected to examination for both novelty and inventive step; applications are published long before grant and open to public inspection throughout examination; patentability is decided on the balance of probabilities; opponents face the same burden of proof in both pre-grant opposition and post-grant revocation proceedings; and the claims must be supported by the original disclosure.
15. Unfortunately, due to a loophole in the transitional provisions of the 2013 Act, patent applications divided from applications made under the 1953 Act can continue to be filed, examined, and granted under the 1953 Act for up to 20 years from commencement of the 2013 Act. This creates a double-standard in examination and unnecessarily perpetuates the very same issues which the 2013 Act was intended to address.
16. The purposes of the 2013 Act are set out unequivocally in s 3 of the Act. These purposes include providing an efficient and effective patent system balancing the interests of inventors and patent owners and the interests of society as a whole, ensuring that a patent is granted only in appropriate circumstances, and providing greater certainty that patents will be valid after they are granted.
17. The current transitional provisions undermine the purposes of the 2013 Act and unnecessarily perpetuate the undesirable environment for local manufacturers which existed under the 1953 Act – facilitating grant of invalid patents, unfairly favouring foreign patentees, and creating considerable risk, uncertainty, and expense for local businesses.

Implementation

18. FPH applauds the Ministry for its initiative in taking steps to address this undesirable situation. However, we are deeply concerned that implementation of the amendments is not seen as justifying a standalone bill and will instead await a suitable legislative vehicle which is expected to be some time away.
19. The urgent implementation of these amendments is critical to the international competitiveness of New Zealand's manufacturing industry. FPH therefore strongly urges the Ministry to consider all possible options for expeditious implementation of amendments to the transitional provisions, whether it be by way of:
- Regulations made under s 245 of the 2013 Act;
 - A standalone amendment Bill;
 - As part of an omnibus Bill; and/or

⁴ Patents Bill, 2010 No 235-2, As reported from the Commerce Committee, Commentary, p. 1.

- A Supplementary Order Paper amending the Patents (Trans-Tasman Patent Attorneys and Other Matters) Amendment Bill or the Trans-Pacific Partnership Agreement Amendment Bill.

20. For example, if the 2013 Act cannot be amended promptly to address this critical issue, we urge the Ministry to consider whether the problem can be temporarily addressed with regulations made under s 245 of the 2013 Act pending amendment of the 2013 Act. Section 245 permits the making of regulations amending, adding, or replacing the existing transitional provisions of the 2013 Act, subject to such regulations being revoked three years from commencement of the 2013 Act (i.e. in September 2017).

Question 1 – Are the current transitional provisions adversely affecting third parties?

21. FPH unequivocally agrees that the continued filing and examination of patent applications under the Patents Act 1953 is adversely affecting third parties.
22. FPH has experienced this first-hand. It is routinely forced to oppose the grant of overly-broad patent applications filed under the 1953 Act by its foreign competitors solely for the purpose of frustrating FPH's manufacture of products in New Zealand. In the past three years alone, oppositions filed by FPH have resulted in the complete withdrawal of seven patent applications and substantial narrowing amendments to at least 18 other applications to avoid the prior art and/or overcome other deficiencies. This provides clear empirical evidence that invalid patent applications are routinely accepted under the 1953 Act. By contrast, FPH has not yet had to oppose even a single application examined under the stricter requirements of the 2013 Act.
23. The cost to FPH of opposing these applications is considerable, yet the cost of *not* opposing them has the potential to be even more so. Third party oppositions are all that stand between applications made under the 1953 Act and patents granted without any consideration of the fundamental requirement for validity of inventive step. This situation is not sustainable, and not in the national interest.

Question 2 – Are there alternative options for addressing the problem?

24. FPH does not propose any alternative options. Either of MBIE's second or third options would appear to address our concerns.

Question 3 – Which option do you prefer?

25. Of the three options proposed by MBIE, FPH favours option three, whereby future divisional applications filed from applications made under the Patents Act 1953 ("the 1953 Act") will be examined in accordance with the stricter requirements of the 2013 Act.
26. This option preserves the ability for patent applicants to continue filing divisional patent applications after commencement of the amendments. Applicants therefore retain the ability to patent any invention disclosed in their application. Meanwhile, third parties will gain certainty that granted patents have been examined for inventive step, and IPONZ will not be required to maintain the capacity to examine applications under the 1953 Act.
27. The third option thus seems most consistent with the purposes of the 2013 Act, including balancing the interests of patentees and society as a whole, complying with international obligations, ensuring that patents are granted only in appropriate circumstances, and providing greater certainty that patents will be valid after grant.
28. However, FPH urges that such divisional applications be treated as applications made under the 2013 Act, rather than merely "examined under the requirements of the 2013 Act" as presently proposed. At the very least, such applications should be open to public inspection throughout examination, and be subject to the more stringent requirements of the 2013 Act (including the balance of probabilities onus, inventive step, and support requirements) not only during

examination, but also in pre-grant re-examination, opposition, post-grant re-examination, and revocation proceedings.

Question 4 – What should be the specified date after which restrictions will apply?

29. FPH agrees that amendments to the transitional provisions in the 2013 Act should come into force within three months of enactment, if not immediately.
30. In accordance with option three, as preferred by both MBIE and FPH, applicants will still have the ability to file divisional applications after the amendments come into force. Accordingly, there is no need to provide a period any longer than three months to permit the continued filing of divisional applications under the 1953 Act. Furthermore, applicants have already had more than two years since commencement of the 2013 Act in which to determine whether any divisional applications should be filed under the 1953 Act. A three month delay is therefore generous.

Question 5 – Other problems in relation to divisional applications

31. We understand that the Intellectual Property Office of New Zealand (IPONZ) interprets reg 71(a) of the Patent Regulations 2014 as precluding the filing of divisional applications under the 2013 Act after expiration of the five-year time limit for requesting examination. It intends to apply the regulation accordingly, and will deem any divisional application filed after the time limit to be abandoned for failure to comply with the time limit for requesting examination.
32. This interpretation has been questioned by some, who contend that the regulation may be complied with by requesting examination at the time of filing the divisional application.⁵
33. FPH agrees with IPONZ's interpretation and proposed application of reg 71(a). It is plainly impossible to comply with the regulation where a divisional application is filed more than five years after the effective filing date of the parent application. However, for the avoidance of doubt FPH suggests that this issue be clarified in any amendments to the 2013 Act. We respectfully suggest that addressing this issue in combination with the amendments to the transitional provisions justifies an urgent standalone Bill.

Clearing the backlog

34. FPH expects that a relatively large number of divisional applications will be filed shortly before any amendments to the transitional provisions come into effect, including a number which may be filed on a purely precautionary basis. This is likely to result in a backlog of applications awaiting examination under the 1953 Act. FPH urges that priority is given to clearing this backlog to eliminate the lingering applicability of the 1953 Act as soon as possible.
35. We suggest that IPONZ be given the explicit discretion to examine applications made under the 1953 Act in whatever order it deems appropriate with this purpose in mind. In particular, priority should be given to applications with the earliest priority dates, since it is not in the public interest for applications to remain pending for a long time. Priority could alternatively or additionally be given to the largest patent families, which might indicate that the applications were filed as a purely precautionary measure or claiming mere trivial variations, rather than for patenting legitimate, distinct inventions.
36. We also suggest that IPONZ be given the discretion to set deadlines for Applicants to respond to examination reports (in addition to the extendible 15-month acceptance deadline), to avoid the examination period being deliberately and unnecessarily prolonged by applicants.

⁵ https://www.parliament.nz/resource/en-NZ/51SCCO_EVI_00DBHOH_BILL66518_1_A499755/f34473989ef5ba4b7904582ccef19251e2ee85f

37. One possible measure to prevent, or at least limit, the potential backlog of applications awaiting examination under the 1953 Act might be to prescribe a limit on the number of divisional applications in each patent family which may be examined under the 1953 Act.

Potential Objections

38. FPH anticipates that applicants and patentees benefiting from the existing transitional provisions will likely object to the Ministry's proposed amendments. However, such criticisms are entirely unfounded.
39. For example, it has been suggested that limiting the filing of divisional applications under the 1953 Act comprises a retrospective change in the law,⁶ the implication being that such amendments would be contrary to the rule of law. However, the options proposed by the Ministry are purely prospective in that they will apply only *after* the amendments come into force. Any pre-existing applications made under the 1953 Act will continue to be dealt with under that Act. Section 7 of the Interpretation Act 1999 confirms that an enactment does not have retrospective effect.
40. Similarly, it has been argued that limiting the continued filing of divisional applications under the 1953 Act will unfairly result in a loss of the right to file divisional applications in the future. However, according to the third option as preferred by both MBIE and FPH, applicants can continue to file divisional applications after amendments to the transitional provisions come into force. There will accordingly be no loss of the right to file divisional applications. Regardless, applicants do not have an inalienable right to continue filing divisional applications under the Patents Act 1953 indefinitely. Parliament is the supreme legal authority in New Zealand and has the prerogative to amend or repeal legislation as and when it sees fit.
41. It has also been suggested that patent applicants will be forced to file a number of precautionary divisional applications under the 1953 Act on or before the deadline, and that this will create uncertainty for the public and unnecessary cost for applicants. To the contrary, any such uncertainty will be resolved relatively quickly as the precautionary divisional applications are examined and either accepted or abandoned. Regardless, any resultant uncertainty pales in comparison with the uncertainty faced by third parties under the existing transitional provisions. Similarly, the cost to applicants in filing precautionary divisional applications is trivial compared with the costs to third parties under the existing transitional provisions.
42. It has also been argued that applicants who have drafted their specification solely with the requirements of the 1953 Act in mind will be disadvantaged if their future divisional applications are subjected to the more stringent requirements of the 2013 Act.⁷ This argument fails to take into account modern commercial realities. New Zealand is such a small market that only the most imprudent applicant would draft a patent application to meet the bare minimum requirements of the 1953 Act, knowing that it would not meet the requirements of any other major market worldwide. Furthermore, statistics from IPONZ show that more than 90% of New Zealand patent applications are filed by foreign applicants, who are especially unlikely to draft their patent specifications specifically to meet the bare minimum requirements of the 1953 Act. Regardless, any such applicants will have the opportunity to file divisional applications under the 1953 Act before the amendments enter into force.
43. Finally, comparisons have been drawn with recent attempts in Europe and Australia to limit the number of divisional applications filed.⁸ Such comparisons are of no relevance whatsoever. The proposed amendments in New Zealand are not intended merely to limit the number of divisional applications filed, but to discontinue the filing, examination, and acceptance of patent applications under the outdated and inadequate 1953 Act.

⁶ <http://www.lexology.com/library/detail.aspx?g=108deebb-f750-4574-9dd8-be87d66248a7>

⁷ <http://www.lexology.com/library/detail.aspx?g=04521db3-af1c-41bd-b34e-ef3be2e96c56>

⁸ Above n 3.

Conclusion

44. FPH welcomes amendment of the 2013 Act to put an end to the filing and examination of patent applications under the 1953 Act. However, we emphasise that it is imperative for the amendments to come into force as soon as possible, and request that a Bill be put before Parliament as a matter of urgency.
45. We thank the Ministry for their careful consideration of our submission on this important matter. Please do not hesitate to contact us if we can be of any further assistance.

Yours sincerely
Redacted - Privacy

Jon Harwood
General Manager Intellectual Property
Fisher & Paykel Healthcare Limited