



By email only

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Commerce, Consumers and Communications Branch
Ministry of Business, Innovation and Employment
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Attention: Warren Hassett

Submissions on the discussion document entitled Possible Changes to the Transitional Provisions in Section 258 of the Patents Act 2013

On 16 September 2016, the Ministry of Business, Innovation and Employment published a discussion document entitled "Possible Changes to the Transitional Provisions in Section 258 of the Patents Act 2013". This document represents the submissions of Henry Hughes IP in relation to that document, informed by their collective experience in prosecuting patent applications in New Zealand. Nothing in this document is intended to represent the view of any client of Henry Hughes IP.

1 Under section 258 of the 2013 Act, applications divided from patent applications made before the entry into force of the 2013 Act are examined under the 1953 Act.

The Ministry considers that this approach may be adversely affecting third parties, including local businesses. Do you agree? If not, please explain why.

1.1 At paragraphs 21-35, the discussion document discusses why there may be a problem with the transitional provisions. Several factors should be taken into account when considering if there is a problem, and if so, whether the problem is of an extent which requires legislative change.

1.2 *Patents Act 2013 is a recent piece of legislation*

1.2.1 The Patents Act 2013 is a recent piece of legislation, debated in Parliament in 2012 and 2013 and given Royal Assent on 13 September 2013. Parliament has considered all of the provisions of the Act and can therefore should be considered to be satisfied with the provisions of section 258. Changes to this provision should only be placed before Parliament (thus utilising valuable parliamentary resources) if it is shown that the section is not acting as intended, or there is some other clear reason why the effects of the section are undesirable.

1.3 *Section 258 is operating as intended*

1.3.1 With regard to the section operating as intended, "daisy-chaining" was a long-standing practice under the Patents Act 1953. Moreover, section 258 is unequivocal in terms of allowing divisional applications to continue under the Patents Act 1953. Accordingly, as Parliament, particularly

through submissions made to the select committee, were clearly aware that section 258 would continue to allow “daisy-chaining” of 1953 Act applications after the Patents Act 2013 came into force. It is thus clear the section is operating as intended.

1.4 *The rights of applicants under the Patents Act 1953*

1.4.1 Another factor to be considered is that Applicants filing applications in New Zealand under the Patents Act 1953 acted on the basis of the law at that time. This includes that they could continue to daisy-chain applications and that those applications would be examined under the provisions of the Patents Act 1953. Altering section 258 now would retrospectively alter the rights of those applicants. Changes which retrospectively alter rights should be undertaken with care.

1.5 *Changes to be consistent with the purpose of the Patents Act 2013*

1.5.1 Any alterations to the Patents Act 2013 should be consistent with the purpose of that Act in section 3:

“The purposes of this Act are to—

(a) provide an efficient and effective patent system that—

(i) promotes innovation and economic growth while providing an appropriate balance between the interests of inventors and patent owners and the interests of society as a whole; and

(ii) complies with New Zealand’s international obligations; and

(b) ensure that a patent is granted for an invention only in appropriate circumstances by—

(i) establishing appropriate criteria for the granting of a patent; and

(ii) providing for procedures that allow the validity of a patent to be tested; and

(c) provide greater certainty for patent owners and the users of patented inventions that patents will be valid after they are granted; and

(d) address Māori concerns relating to the granting of patents for inventions derived from indigenous plants and animals or from Māori traditional knowledge; and

(e) ensure that New Zealand’s patent legislation takes account of developments in the patent systems of other countries.”

1.6 *“Third parties” and the purpose of the Patents Act 2013*

1.6.1 In subsection (a)(i), promoting an appropriate balance is between “the interests of inventors and patent owners and *the interests of society as a whole*”. The discussion document refers to “third parties” including local businesses. However, it appears as though the term “third parties” is used in the context of manufacturing businesses and other potential patent infringers. The interests of “third parties” are not necessarily coterminous with the “interests of society as a whole”.

1.6.2 New Zealand’s university technology transfer companies are not usually manufacturers and are therefore unlikely to be patent infringers. However, a significant benefit to society can be seen in the successful commercialisation of technology generated within the universities. Thus the interests of “society as a whole” should not be weighed just with regard to manufacturing “third parties”.

1.6.3 Parties such as universities may have an interest in continued allowance of daisy-chaining. It may be desirable to retain a pending application until a licensing deal has been made, allowing protection to be targeted to the subject of the licence. Licensing a technology may take many years and require significant further experimentation and investment.

1.7 *IPONZ and the purpose of the Patents Act 2013*

- 1.7.1 Section 3 refers to “an efficient and effective patent system” but does not explicitly refer to the interests of IPONZ as being a purpose of the Act. Given that the purpose of IPONZ is to administer the Act, we would suggest that the interests of IPONZ should be given little weight in the consideration of amending section 258
- 1.7.2 We accept that there is a possibility that IPONZ will have to maintain the capacity to examine 1953 Act applications for up to 20 years under the un-amended system. However, we consider this to be unlikely. In our experience, few applicants, (and none of our clients) seek to keep a pending application for a full 20 years.
- 1.7.3 We also point out that the grounds under which 1953 Act applications are examined are, in most cases, a subset of those examined under the Patents Act 2013. There should be few if any objections raised against a 1953 Act application that are not raised against a 2013 Act application. Accordingly, it does not appear to be particularly onerous to retain the capability of examining 1953 Act applications.
- 1.7.4 Whether any of the proposed changes will actually result in short to medium term efficiencies for IPONZ is questionable. Our experience of the similar situation in Australia with the passage of the Raising the Bar Act 2012 is that on filing of divisional applications under the old law resulted in the filing of a number of precautionary divisional applications (often several for each case) immediately prior to the deadline. This in turn led (in part) to a large increase in examination load for IP Australia, and consequent delays in examination. In many cases these divisional applications were subsequently abandoned as suitable scope was obtained in other applications.
- 1.7.5 We foresee a similar situation in New Zealand except that, due to automatic examination under the Patents Act 1953, Examiner’s will be faced with having to examine a large number of applications which may or may not be pursued by the Applicant.

1.8 *The extent of the problem to both IPONZ and third parties*

- 1.8.1 At paragraph 33 the document states there was a total number of 3054 pending applications under the 1953 Act as at mid-July 2016. Of these applications, 1693 are divisional applications made up of 661 first generation divisional applications, 691 second generation divisional applications and 341 third generation divisional applications.
- 1.8.2 The numbers above do not allow for any fourth and fifth generation divisional applications of 1953 Act applications. We are aware that fourth generation divisional applications exist. Accordingly, we question the veracity of the figures.
- 1.8.3 More accurate figures would allow for a better assessment of the extent of the problem (if any) to both IPONZ and ‘third parties’. For example by providing the number of “fourth generation” and “fifth generation” divisional applications, it is possible to determine the level of ‘tailing off’ between generations. This would give an indication of how much of an issue the continued filing of 1953 Act divisional applications will be for both IPONZ and ‘third parties’. We strongly recommend that this data be developed and considered in detail before placing any amendment before Parliament.

1.9 *Adversely affecting ‘third parties’*

1.9.1 With regard to the specific question at point 1, we consider it is clear in light of the submissions of Fisher & Paykel Healthcare mentioned in the discussion document that the approach under section 258 may be “adversely affecting” at least some third parties. However, as discussed at 1.3, Parliament was aware of this concern when settling the terms of the 2013 Act, and, as remarked in 1.6 and 1.7, care should be taken in equating the interests of “third parties” with “the interests of society as a whole”, or even “local businesses”. It should also be noted that any provision of the Patents Act 2013 could be considered to be a problem for one party, while advantageous to another, depending on the type of business.

1.10 *Whether the problem warrants legislative change*

1.10.1 In our opinion the evidence provided in the Discussion Document falls short of establishing that there is a clear problem of sufficient extent for legislative change. As noted, the section appears to be acting as intended in preserving the rights of applicants who filed under the Patents Act 1953. Moreover, it is not immediately apparent that the reasons for change are consistent with the purpose of the Patents Act 2013.

2 The Ministry has identified three options (including no change) for dealing with the potential problems identified in relation to section 258 of the 2013 Act. Are there any other options you think should be considered? If so, please describe them.

2.1 *‘Submarine’ divisional applications*

2.1.1 Under the Patents Act 1953, the claims of a divisional application must be fairly based on the specification (s10(4)) and it is not possible to add subject matter to the specification. Thus, provided the specification is published a “third party” is able to some extent predict the subject matter which could be claimed.

2.1.2 However, under the Patents Act 1953 there remains the possibility of so-called “submarine” divisionals – applications which have never been published. In these cases the only information the “third party” has to content is the title and class.

2.1.3 It is not clear if this remains a problem as most applications will have been published in some form by way of the PCT or by publication elsewhere in the world. Statistics would be useful to see if any amendment is necessary.

2.1.4 If considered necessary, an option which could be considered is to amend the Patents Act 2013 to ensure that the specification of a divisional application proceeding under the 1953 Act, but filed after commencement of the 2013 Act is published.

3 MBIE’s preferred option is Option 3. Do you agree that this is the best option? If not, which option do you prefer? Please explain why.

3.1 *Option 1 preferred*

3.1.1 We do not believe that the evidence has established that there is a significant enough problem to change a clear law on which applicants have relied. Accordingly we prefer option 1, the status quo.

3.2 *Options 2 and 3 result in loss of rights*

3.2.1 Either of options 2 or 3 suggested by MBIE could result in the loss of rights to an applicant who acted on the basis of the law at the time the initial application was filed, including on their rights to make further applications from that initial application under the Patents Act 1953.

3.3 *Option 2 not in accordance with the Paris Convention*

3.3.1 We agree that option 2 would not be in accordance with New Zealand's obligations under the Paris Convention and thus should be disregarded. Moreover, this option would only serve to exacerbate the situation described at 1.13 above.

3.4 *Effects of option 3*

3.4.1 Option 3 would likely result in more than just examination for obviousness (which was a ground of invalidity under the Patents Act 1953 and therefore arguably was in the consciousness of applicants when filing). Other grounds which would not have been in the consciousness of applicants as they were not grounds of examination or invalidity under the Patents Act 1953 include:

Inventions not patentable as the commercial exploitation is contrary to public order (section 15, Patents Act 2013)

Inventions to computer programs as such (section 11, Patents Act 2013)

Inventions which are plant varieties (section 16 (4), Patents Act 2013)

Specific, credible and substantial utility (Section 10, Patents Act 2013)

Claims must be supported by matter in the description (section 39(2), Patents Act 2013, cf fair basis, section 10(4) Patents Act 1953)

Inventions which are not published in New Zealand but are published elsewhere.

All of the above provisions have the capability of changes what was otherwise and acceptable *and valid* application under the Patents Act 1953 into an invalid application if it were to fall under the Patents Act 2013.

3.5 *Implementation of Option 3 and Regulation 71, Patents Regulations 2014*

3.5.1 We also have concerns with how option 3 would be implemented. It appears from paragraph 49 that the intention is to deem all applications made after a certain date an application made under the 2013 Act. Such an approach would not only increase the standard of examination, but also the costs on the applicant since they would be required to request examination and pay the associated fee.

3.5.2 The Patents Regulations 2014 stipulate that examination must be requested within five years of the date the application has been filed (regulation 71). If implemented in the terms specified at paragraph 49, then this would also apply to divisional applications. This would substantially restrict the capability to file additional divisional applications, even in the circumstances where there is a unity objection. Given the time periods involved, there are already 1953 Act applications for which the deadline of 5 years has passed. For these applications it would seem that the proposed implementation would in effect achieve the same effect as option 2, and therefore could be considered contrary to the Paris Convention.

3.5.3 An alternative approach would be to have these applications subject to the substantive provisions of the Patents Act 2013, but exempt them from the provisions for requesting examination. This would address the concerns and 3.5.1 and 3.5.2 above, while also achieving all of the all of the factors noted under paragraph 37 of the discussion document.

3.6 *Summary*

3.6.1 In summary, we prefer option 1 and agree option 2 should not be pursued. If option 3 is to be pursued, then it should be pursued along the lines set out at 3.5.3 above.

3.6.2 As a final point, please note that we do not consider such an amendment to be uncontroversial, therefore any amendments should be included in a legislative vehicle which allows for full parliamentary process including submissions to a select committee.

4 What should the specified date be after which after which the restrictions on filing 1953 Act divisional applications set out in options 2 or 3 will apply? Please explain why you think this date should be adopted.

4.1 We agree that a period of three months from entry into force of the provisions should be sufficient. Our only concern is that IPONZ is adequately resourced to examine a number of 1953 Act applications being filed in a short period of time (see the discussions at paragraph 1.7.4 and 1.7.5 above) in advance of the law taking effect.

5 Are there any problems in relation to divisional patent applications other than in section 258 of the 2013 Act that you consider should be addressed by MBIE? If so, please describe the issue and why you consider them to be a problem?

5.1 *Regulation 71 Patents Act 2013*

5.1.1 Regulation 71 of the Patents Regulations sets a five year limit for requesting examination from the deemed date of filing of a divisional application. However there is no limit on when an application can be made.

5.1.2 We understand that the intention of this provision is to limit the ability to file divisional applications to within five years of the filing date of the parent application. We disagree with both this intention and the means by which it is achieved.

5.1.3 Regulation 71 does not affect the ability to make an application. Thus the provisions of the Act and Regulations as they currently stand allow for the filing of an application for which examination cannot be requested, and which consequently cannot be granted. This situation would seem to be an absurdity. If there is an intention to restrict the time period in which divisional applications should be made should be reflected in express wording to this effect in the Act and/or Regulations.

5.1.4 We also disagree with the intention in restricting the filing of a (valid) divisional application to five years. The purpose of this provision is to stop “daisy chaining”, apparently on the assumption that “daisy chaining” is adversely affecting third parties as described in the discussion document. As noted at 1.6 above, it is not necessarily the case that “third parties” interests equate to society as a whole.

5.1.5 We consider there are legitimate reasons why an applicant may wish to continue filing divisional applications more than five years from the original filing date. One example is where unity objection is raised which results in a large number of inventions, which it would be unfeasible to protect all at once, and the time frame for establishing the commercial value can be years. This effectively asks an applicant to guess which of the disclosed (and published) inventions to protect. This is frequently the case with life sciences inventions in fields such as antibodies.

5.1.6 Thus we consider that the detriment to applicant's from the application of regulation 71 outweighs any interest in society in restricting divisional practice, especially given divisional applications under the Patents Act 2013 are both published and subject to the higher standards of that Act.

5.1.7 Thus we consider regulation 71 should be amended to refer to the actual filing date of an application, not the deemed filing date by way of antedating. This is in line with the Australian interpretation of the same decision.

5.2 *Regulation 52 – Prescribed manner in which an application must be made*

- 5.2.1 Section 34(2) provides that a divisional application may only be made:
“in accordance with any further prescribed requirements relating to the period within which a divisional application may be made.”
- 5.2.2 Regulation 52 provides that the manner in which an application is made is:
“(a) the divisional application must not include a claim or claims for substantially the same matter as claimed in the parent application; and
(b) the parent application must not include a claim or claims for substantially the same matter as claimed in the divisional application.”
- 5.2.3 It is not clear how the regulation making power granted by section 34 can govern the claims of the parent application, thus arguably regulation 52(b) is *ultra vires*.
- 5.2.4 It is also not immediately clear how “substantially the same subject matter” will be determined. The equivalent provisions under regulation 23(2) of the Patents Act 1953 are the subject of frequent discussions between examiners and applicants. Until case law develops, it will not be possible to say definitively what is meant by “substantially the same subject matter”.
- 5.2.5 Phrasing provision (a) as a requirement of filing of a divisional application seems overly onerous. In order to meet this requirement the claims of the divisional application must not include a claim or claims for matter for substantially the same matter as claimed in the parent application at the time of filing.
- 5.2.6 Usual Office practice is that the divisional application may not be examined for several months after filing. Thus there is the possibility that a divisional application will be filed, subsequently examined and considered by the Examiner to claim “substantially the same subject matter” as the parent. The application could then be deemed not to be a valid divisional application and therefore not be entitled to antedating. If the parent has been accepted in the meantime, the opportunity to file a further divisional application is lost. Subsequent amendment could not remedy this defect because it is a filing requirement, not a requirement of acceptance.
- 5.2.7 The phrasing of the provision as a filing requirement also means that the claims are to be assessed at a time prior to acceptance of both applications. This means that a divisional application could be filed with claims which are not for “substantially the same matter” as the parent application and later amended to subject matter which is “substantially the same”. On the face of it there is nothing in the Act which would preclude such an approach and thus the acceptance of both applications. This clearly defies the intention of the regulation which, as is the case with regulation 23(2) appears to be to prevent grant of two patents to substantially the same subject matter.
- 5.2.8 As noted at 5.2.4 there it seems that an inordinate amount of both examiner and applicant resources are spent determining what should and should be allowable in terms of overlap between a parent and divisional, and it is unclear what mischief this is intended to prevent (see for example the discussion in P21/2009), especially given the linking between the two applications on the register. Nevertheless, should it be deemed that preventing parent/divisional overlap remains a desirable outcome, we suggest that the provision is better phrased as preventing acceptance of a divisional application if it claims “substantially the same subject matter” as the parent.
- 5.2.9 Accordingly we suggest that Regulation 52(3) be deleted and a new regulation be inserted under section 65(1)(b) which allows the Examiner to examine for whether the divisional application claims substantially the same subject matter as the parent application.

We welcome the opportunity to discuss any of our submissions above with you in person. Please feel free to contact the undersigned on (04) 3816050, or via email d.nowak@henryhughes.co.nz

Yours faithfully
HENRY HUGHES IP
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