

EFFECT OF SIZE OF INVENTIVE STEP

ON

THE EFFICIENCY OF THE PATENT SYSTEM

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AIM OF PATENT SYSTEM

- Maximise incentive to invent
- Minimise slow down in diffusion (knowledge & ideas)

TRADE-OFF – so where do we draw the line?

We don't want to grant a patent for every-thing

THE 'INVENTIVE STEP' USED TO DETERMINE IF INCENTIVE FROM PATENT IS NEEDED.

'Good' patent = invention would NOT be created without patent

'Bad' patent = invention would be created without patent (cheap to invent, flash of genius)

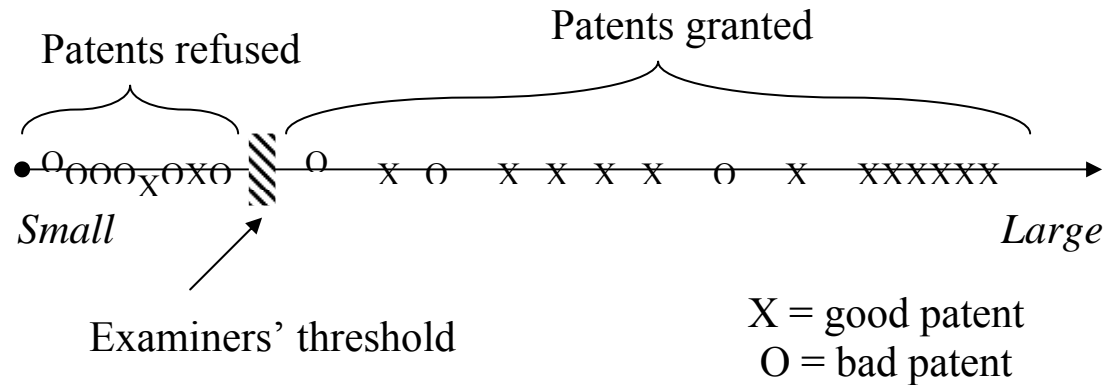
OBJECTIVES OF ECONOMICALLY EFFICIENT PATENT SYSTEM:

- minimise good inventions that are refused ('good patent' refused)
- minimise bad inventions that are granted ('bad patent' granted)
- give certainty to business
- minimise cost of administering the system.

GOVERNMENT HAS 3 POLICY INSTRUMENTS:

- size of the inventive step;
- rigour of examination and opposition process;
- court predisposition to affirm patent office's decision

SIZE OF INVENTIVE STEP SPECTRUM



Error = **X** or **O** on wrong side of bar.

2 SOURCES OF ERRORS:

1. Large inventive step \neq 'good' patent (or small inventive step \neq 'bad' patent)
2. Random error in the examination process

TYPOLOGY FOR THE EXTENT OF ‘GOOD REFUSAL’ AND ‘BAD GRANT’ ERRORS

Quality of examination	Size of required inventive step	
	Small	Large
Cursory (high random error)	WEAK Low ‘good refusal’ errors High ‘bad grant’ errors	SEMI-STRONG Medium ‘good refusal’ errors Medium ‘bad grant’ errors
Rigorous (low random error)		STRONG Low ‘good refusal’ errors Low ‘bad grant’ errors

UNCERTAINTY = MAIN FORCE INHIBITING COMMERCIALISATION OF INVENTIONS

Most uncertainty lies in the enforcement process

- Patents more certain if there is presumption of validity in court of law

Australia has a lower “balance of probability” test

- the density of ‘bad grants’ makes it harder to separate chaf from wheat

TYPOLOGY FOR UNDERSTANDING THE CERTAINTY OF PATENT TITLES

Proportion of bad patents	Court's predisposition on validity	
	Revoke patent office decision	Affirm patent office decision
Large (high 'bad grants')	CERTAIN LOSS Convergent expectations of loss in court for patent owner	UNCERTAIN – POOR PATENTS Divergent expectations of court judgment
Small (low 'bad grants')	UNCERTAIN – SCEPTICAL COURTS Divergent expectations of court judgment	CERTAIN WIN Convergent expectations of win in court for patent owner

Certainty means that few disputes over patent validity arise and those that do are settled quickly

BEST SYSTEM

- provides certainty for innovative firms
- limits loss of diffusion of ideas via ‘bad patents’

**ON THE FACE OF IT, MOST CERTAINTY & LEAST LOSS TO DIFFUSION
VIA:**

- high inventive step
- rigorous examination procedure
- courts presumption of validity

But, more expensive to examine, cheaper legal costs.

International Patent Examination Outcomes, Matched Sample, 1990-1995

