



## **Regulatory Impact Statement**

### **Single Economic Market Patent Outcomes: Single Patent Application Process and Single Patent Examination Process**

#### **Agency Disclosure Statement**

- 1 This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment.
- 2 It provides an analysis of options with regard to reducing the duplication of work that takes place in the filing and examination of patent applications for the same invention filed in both New Zealand and Australia. This work implements the Single Economic Market patents outcomes announced in 2009.
- 3 The Ministry's preferred option is to develop a single patent application process (SAP) and a single patent examination process (SEP) in collaboration with its Australian counterpart.
- 4 At this stage the Ministry has not been able to fully quantify the costs and benefits of the SAP and SEP. The analysis is limited because the detailed framework of the SAP and SEP structure is yet to be negotiated between New Zealand and Australia. It is therefore difficult to anticipate what infrastructure will be implemented and how the processes will work.
- 5 An initial SEP pilot program will be run to further quantify the costs and benefits to determine how best to implement the SEP. Cabinet approval will be sought on a decision whether to fully implement the SEP. Legislative change is required to enable a pilot program to be implemented.

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### Background

- 6 In August 2009, Prime Ministers Key and Rudd issued a joint statement of intent in which outcomes for the Single Economic Market (SEM) between Australia and New Zealand were agreed. Two of the outcomes for intellectual property were the development of a single patent application process (SAP) and a single patent examination process (SEP) for New Zealand and Australian patent applications.

### Status Quo and Problem Definition

- 7 The nature of the international patent system is such that corresponding applications are filed almost simultaneously. At present, a business that wishes to obtain patent protection for the same invention in New Zealand and Australia must file separate applications in both countries ("**corresponding applications**"). New Zealand applications are filed with the Intellectual Property Office of New Zealand (IPONZ) and Australian applications are filed with IP Australia, the Australian counterpart of IPONZ.
- 8 IPONZ receives just over 6000 patent applications each year. Approximately 95% are also the subject of a corresponding application in Australia. About 85% of the applications received by IPONZ originate from outside New Zealand.
- 9 The two problems that need to be addressed are the application process and the examination process.

### Problem A – application process

- 10 The single application process SEM outcome is designed to reduce inefficiencies for businesses seeking to protect their inventions in the trans-Tasman markets.
- 11 The time required to file a patent application through the IPONZ online system ranges from 15 to 30 minutes. This time only includes data entry and does not take into account the time taken by applicants or patent attorneys in preparing and checking the information and dealing with their own internal filing processes. Over 99% of New Zealand applications are filed online with IPONZ. More than 90% of Australian applications are filed online with IP Australia.
- 12 Nearly all patent applicants use the services of patent attorneys to file and prosecute their applications. It is extremely rare for applicants to deal directly with IPONZ and IP Australia. Under the Trans-Tasman Mutual Recognition Act 1997, New Zealand registered attorneys can file and prosecute applications with IP Australia and vice-versa.
- 13 The documents and procedures required to file an application are similar in New Zealand and Australia. The differences that do exist are not great, and will reduce further when the Patents Act 2013 (**2013 Act**) enters into force. Therefore, there will be significant duplication in the application processes between the two countries. The cost of preparing and filing two separate applications would be reduced if only one application was required.

### Problem B – examination process and requirements under the 2013 Act

- 14 Once filed, applicants must request examination to determine whether a patent should be granted. Examination comprises assessing patent specifications, searching for novelty and inventiveness, and drafting examination reports. If the application as filed does not meet the criteria for a grant, the examiner produces an examination report setting out reasons for this. The applicant can reply, by proposing amendments to the application to overcome the examiner's objections, or by providing arguments to rebut them.

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- 15 If the applicant's response does not overcome the objections, the examiner produces a further report. The applicant can then respond, and this process continues until either the objections are overcome and the application is accepted for grant, or the grant of a patent is refused. Most applicants respond to examination reports two or three times.
- 16 The 2013 Act requires much stricter examination of applications than the current Patents Act 1953. The 2013 Act sets out new criteria for granting patents. The new criteria will more closely align the criteria with Australia, although there will still be significant differences. IPONZ estimates the average time required to examine an application under the new criteria will be 20 to 24 hours (the actual time will vary according to the complexity of the application and whether the applicant has a preliminary examination report). This is similar to the time taken by IP Australia to examine an Australian application.

### *Impact of new examination criteria under Patents Act 2013*

- 17 The new criteria under the 2013 Act will require greater resources to be put into patent examination than at present. As the number of applications increase, this could potentially put pressure on the capacity of IPONZ to efficiently examine applications. IPONZ will need to expand and retrain its examiner workforce so that the examiners are competent to examine patents against the new law. IPONZ will also need to use more sophisticated search tools. This is likely to require considerable time and resource.

### *Inconsistent quality in examination processes*

- 18 Currently no formal systems are in place between Australia and New Zealand to ensure a consistent examination approach. Examination by different examiners can lead to inconsistent outcomes for a single invention (apart from those that arise from differences in law and practice). This could be resulting in different responses where similarities in law and practice would suggest that the same response would be appropriate.
- 19 It is also important that the examination processes are of a similar quality to provide businesses and the public with greater certainty that inventions will be protected in both markets. Consistency across the Tasman will make outcomes more predictable and it may therefore be easier for patent attorneys to provide advice as to whether an application will be successful in both jurisdictions. Given that the new criteria will align further with Australia, it is even more important to ensure that IPONZ and IP Australia have consistent high quality processes and outcomes.

### *Costs to IPONZ, IP Australia and applicants from duplication*

- 20 Currently much of the work carried out by IPONZ and IP Australia examiners is the same. There will be even more duplication with the new criteria. The duplication arises because two sets of examiners are required to become acquainted with the same specifications and undertake searches for prior art for the same invention, before being able to assess the application against the respective laws. The duplication imposes potentially avoidable costs on IPONZ and IP Australia. Since the application and examination costs are recoverable through application and examination fees and renewal fees, applicants ultimately bear the cost of the examination process.
- 21 The similarities in the examination process also result in potentially avoidable duplication and increased workload for applicants and patent attorneys. Often the examiner's objections will be similar for both applications and require similar responses from the applicant. The applicant must respond separately to the two examination reports.

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### Objectives

- 22 The objectives are based on the principles of the SEM agenda set out in the joint statement of intent. The SEM agenda moves beyond purely national benefits and seeks to optimise net Trans-Tasman benefit. The relevant SEM principles are reducing costs for trans-Tasman businesses by aligning laws and procedures and achieving economies of scale for both governments in regulatory design and implementation.
- 23 The objectives are:
- a. Reduction of time and resources spent by New Zealand businesses applying for and obtaining patents in both New Zealand and Australia.
  - b. Minimising the administrative costs of running the patent regime.
  - c. Ensuring patents granted in Australia and New Zealand are of a similar, high quality standard.
  - d. Ensuring examination approaches are consistent between Australia and New Zealand.
- 24 Objectives a. and b. apply to problem A and all the objectives apply to problem B.

### Options

- 25 A high-level model SAP has been developed to address problem A. This is a straight forward issue and, given that a single patent institution (mentioned below) is not feasible, the SAP is the only viable option. As the SAP is only a high-level model, IP Australia and IPONZ will consider different methods of implementing the SAP in a cost effective manner that achieves the objectives.
- 26 The Ministry considered two options to address problem B:
- i. A single patent examination process.
  - ii. Work sharing.
- 27 Two options below were not considered in detail due to the cost and limited benefits.
- A single patent institution*
- 28 An alternative solution to both problems would be to establish a single institution to grant a single patent covering Australia and New Zealand. This would require the negotiation of a treaty between Australia and New Zealand for a common patent regime. This solution is not considered feasible due to the time and complexity involved, and the likely difficulties in achieving a consensus on such a regime.
- The Patent Prosecution Highway (PPH)*
- 29 A solution to problem B is the PPH. Under the PPH patent offices share information to accelerate patent prosecution. Each patent office benefits from the work of the other office, which reduces examination workload and improves patent quality. The program enables the fast-tracking of examination procedures that have received a positive written opinion from another patent office. Twenty-three countries are involved in various PPH agreements. Australia has a PPH agreement with the US Patent and Trademark Office.
- 30 As most patent offices have examination backlogs measured in years, the PPH allows an applicant to request early examination and use the outcome to seek early examination in an overseas patent office. IPONZ does not have a backlog. Thus, in most cases it will be the first office to examine an application. The PPH would allow other patent offices to use the prosecution of New Zealand application, but IPONZ would rarely be in the position to take advantage of accelerated patent prosecutions undertaken in overseas patent offices.

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### Problem A (application process) option – SAP

31 The SAP will be implemented through dedicated SAP “portals” on the IPONZ and IP Australia websites. Applicants using one of the portals will provide all the information required for both applications, together with a combined fee. Once all the information and correct fee are provided, each application will be sent to the appropriate office for further processing.

#### *Costs and benefits*

32 The main benefit to applicants is that the information required for the corresponding applications will only be provided once. This will take less time than if two separate applications are filed in each country. The savings are difficult to quantify, but are likely to be of the order of 15-30 minutes for each pair of corresponding applications.

33 The benefits will accrue if the same patent attorney files the corresponding applications. Currently about 40% of corresponding applications nominate the same attorney for both applications. Approximately 95% of 6000 applications filed with IPONZ are corresponding applications. This suggests data entry time savings to patent attorneys of about 570-1140 hours per year. The other 60% of corresponding applications are filed by different attorneys, usually one in New Zealand and one in Australia. It is likely that this figure would significantly decrease under the SAP as only one application would be required. If all corresponding applications are filed by the same attorney, the amount of time saved is likely to be 1425-2850 hours. This does not include the time savings in administering the patent attorney’s own systems and processes. Total time savings are likely to be greater and may result in cost savings to applicants through reduced patent attorney fees.

34 The SAP costs will be recovered through application fees. The portal set-up cost will be around \$300,000. On-going administrative costs to IPONZ will include receiving applications and fees on behalf of IP Australia. These costs will not be quantifiable until after New Zealand and Australia complete negotiations on the detailed framework of the portal, but are unlikely to be considerable.

<b>Comparison of SAP against objectives and status quo</b>	
<b>Objective 1:</b> Reduce costs to businesses	Considerable reduction as only one application process is required. Potential time saving of 570-2850 hours for data entry and further time savings for the patent attorney’s own processes.
<b>Objective 2:</b> Minimise administration costs	Costs recovered through application fees: <ul style="list-style-type: none"> <li>· Set-up cost of around \$300,000 to establish the portal.</li> <li>· On-going maintenance and administrative costs.</li> </ul>
<b>Risks</b>	N/A.
<b>Net economic benefit to New Zealand</b>	Positive – at this stage it is unclear whether fees will decrease or increase. However, total fees are unlikely to outweigh the benefits of time savings and reduced patent attorney fees for applicants.

### Problem B (examination process) options

#### Option 1 – work sharing

35 Work sharing would involve IPONZ and IP Australia sharing the results of their patent examination work. Work sharing arrangements are becoming increasingly common in other parts of the world. Many patent granting authorities now publish all information relating to applications on their websites. IPONZ already makes use of examination results published by other countries. This could be expanded so that New Zealand and Australia make extensive use of each other’s results and examination work.

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- 36 Work sharing can reduce the work involved in examining corresponding applications, where an application has already been examined by one of the offices. Unlike the PPH, work sharing is simply the making available of examination information and is not initiated at the request of the applicant.

### *Costs and benefits*

- 37 Work sharing would impose few (if any) additional costs on IPONZ while providing some reduction in examination work. However, the benefits are likely to be small. IPONZ can only make use of the work carried out by IP Australia if IP Australia has already examined the corresponding application. IP Australia has much larger backlogs of examination work than IPONZ. As a result, IPONZ often examines applications before the corresponding application has been examined.
- 38 Work sharing would still require corresponding applications to be examined by two examiners, one in IPONZ and one in IP Australia. There would still be significant duplication of work, with only very limited potential to further reduce duplication.
- 39 Work sharing would have little impact on the quality of patents granted in Australia and New Zealand. There would be greater consistency of information used. However, there would be no measures to ensure applications are examined at a consistent high standard.

## **Option 2 – SEP**

- 40 The SEP is intended to apply to corresponding applications filed in New Zealand and Australia. If corresponding applications enter the SEP, they will be referred to a single examiner. The examiner may be in IPONZ or IP Australia and will examine both applications simultaneously.
- 41 The New Zealand and Australian applications will be examined according to New Zealand and Australian law and practice, respectively. If both applications are accepted then two separate patents may be granted, one for New Zealand and one for Australia. It would be possible for a patent to be granted in one country but not the other. This may arise, for example, because of differences in New Zealand and Australian patent law and practice.
- 42 Where corresponding applications are examined under the SEP, applicants will receive and respond to a single examination report produced by a single examiner.
- 43 A SEP pilot program (explained below) will also be undertaken to assess the costs and benefits of fully implementing the SEP.

### **Costs and benefits**

#### *Increasing consistent processes and quality outcomes*

- 44 The SEP will ensure high quality patents are granted as shared resources and expertise would contribute to robust patent examination. A joint trans-Tasman quality review system, would also provide consistency regarding the outcome of Australian and New Zealand patent applications. IPONZ and IP Australia will develop a joint quality review system and have already commenced work on ensuring consistency between the two processes. These two factors would result in stronger examination outcomes and therefore fewer grounds to question the validity of the patents granted. Stronger patents provide businesses with greater certainty that they can rely on the patent regime to protect their inventions. This may also have positive societal impacts as patents granted are subject to a rigorous examination process.

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### *Maintaining efficient high quality examination*

- 45 Joint examination would improve the resilience of IPONZ to manage the increased workload resulting from the new examination standards under the 2013 Act. IPONZ and IP Australia would be able to utilise each other's examination resources to ensure current operational efficiencies can be maintained.
- 46 IPONZ will also be able to leverage off IP Australia's examination experience under the new criteria. This will make it easier to bring IPONZ examiners up to the requisite standard for examining applications.

### *Removing duplication*

- 47 The SEP would increase efficiency as it will reduce the overall examination workload. The time and resources taken to examine two corresponding applications are likely to reduce as only one examiner would need to become acquainted with the application and undertake searches for novelty and prior art. It is not possible to accurately predict the likely time savings but this could be a few hours for each pair of applications.
- 48 The amount of work required by patent attorneys, on behalf of applicants, in responding to examination reports may reduce. A single response may suffice if the examiner's objections are similar for both applications. The reduced workload may result in reduced patent attorney fees, ultimately benefiting applicants.

### *Costs*

- 49 The SEP will involve some initial set-up costs and on-going costs, such as:
- Training examiners to examine Australian applications. However, as noted above examiners in any event will require significant training to examine patents under the new criteria regardless of this initiative. Much of this training will be required any way as it will be relevant to examining Australian applications.
  - IT development required to implement the SEP following the pilot project. A rough estimate for the examination systems is approximately \$100,000. This cost cannot be accurately quantified at this stage as the IT requirements will only become clear once the detailed framework is developed.
  - On-going costs of assessing corresponding applications' suitability for entering the SEP and allocating the SEP examinations between IPONZ and IP Australia. There may be the ability to reduce these costs through the use of a suitable IT solution.
  - IPONZ's examination workload will increase as a result of the 2013 Act coming into force and there is potential for it to also increase as a result of the SEP. IPONZ may increase its examination workforce to manage the increased workload. At a trans-Tasman level the total workload will decrease as an SEP examination is expected to be less than the total amount of work required to examine corresponding applications separately.
- 50 The costs of the SEP are recoverable through application and examination fees. Therefore, any increase in costs to IPONZ will result in increased costs to business. These costs cannot be quantified because the detailed framework of the SEP is yet to be negotiated between Australia and New Zealand.
- 51 There is a risk that IPONZ would obtain a larger workload, resulting in backlog because IP Australia has a backlog. Although the detail of the SEP is yet to be determined, pending negotiations, this risk is likely to be small as the SEP is likely to have a maximum limit of applications relative to the joint resources available. IPONZ will mitigate this risk further by increasing its examiner workforce if appropriate.

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### Comparison of problem B options

52 The table below shows that option 1 would partially achieve objective 2 at little cost but would not meet objectives 1, 3 and 4. Option 2 would achieve objectives 1, 3 and 4 but would impose greater costs than option 1.

<b>Comparison of options against status quo</b>		
	<b>Option 1: work sharing</b>	<b>Option 2: SEP</b>
<b>Objective 1:</b> Reduce costs to businesses	No reduction in responding to examination reports as two responses would still be required.	Potentially only a single response to the examiner's objections required. Likely to be savings of a few hours per applicant as most applicants respond to examination reports.
<b>Objective 2:</b> Minimise administration costs	No additional administrative or operational costs.  Some reduction in workload from relying on examination information published by IP Australia.  Still duplication of examination process.	Potentially a few examination hours saved for each pair of corresponding applications. Overall reduction in IPONZ and IP Australia workload for examining corresponding applications.  Costs recoverable through fees: <ul style="list-style-type: none"> <li>· Costs to up-skill examiners (this cost will be marginal relative to the planned costs for capability development under the new regime).</li> <li>· Set-up cost to establish SEP (roughly \$100,000).</li> <li>· On-going maintenance and administrative costs.</li> </ul>
<b>Objective 3:</b> Similar high quality patents	Little impact on quality.	Shared experiences of New Zealand and Australian examiners will increase the robustness of the examination process.  Shared resources increase resilience against expected rise in workload.  IPONZ benefits from Australian examiners' experienced with new criteria.
<b>Objective 4:</b> Consistent examination approach	Little impact – greater consistency of information used but no measures to ensure consistent examination processes.	IP Australia and IPONZ will develop a joint quality review system to ensure consistent outcomes.
<b>Risks</b>	None.	Low risk of backlog.
<b>Net economic benefit to New Zealand</b>	Slightly positive.	Positive –increased quality and consistency together with time savings on examination and responses are likely to outweigh costs of implementing SEP.



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### Conclusions and Recommendations

- 53 The preferred option is to adopt, in collaboration with IP Australia, the SAP and SEP. The time savings by applicants and examiners are likely to outweigh the implementation costs of the SAP and SEP. This option will provide greater benefits to businesses in terms of reduced costs and more consistent outcomes for corresponding applications.

### Consultation

- 54 There has not yet been any formal public consultation process. However, the IPONZ website has contained information on the SAP and SEP since February 2011 and updates on both of these outcomes have been circulated to the IPONZ e-newsletter subscriber list. These proposals have been discussed informally with patent attorneys through the IPONZ Patents Technical Focus Group, which comprises representatives from the major patent attorney firms, and with the President of the New Zealand Institute of Patent Attorneys (NZIPA), who provided the informal views of the NZIPA Council. Discussions have been on the broad aspects of the SAP and SEP rather than the detail of implementation because the detail has not yet been formulated. Feedback from these discussions suggests the SAP is a welcome and sensible addition and that the SEP is a reasonable proposal.
- 55 While formal consultation prior to finalising legislative changes would be desirable, the legislative changes are being pursued now in order to take advantage of the availability of a suitable legislative vehicle, the Patents (Trans-Tasman Patent Attorneys) Amendment Bill, for which drafting instructions are currently being prepared.
- 56 There will be two formal consultation processes undertaken before the SAP and SEP are implemented. Formal consultation will be carried out as part of the select committee process. There will also be a new RIS and formal consultation as part of the process of formulating regulations for the implementation of the SAP and SEP. It is expected that these regulations will be developed at the same time as the regulations for the new 2013 Act.
- 57 Consultation will be co-ordinated with IP Australia, so that there will be a common approach to consultation in both New Zealand and Australia.

### Implementation

- 58 It will be necessary to conclude a bilateral arrangement with Australia to implement the SAP and SEP. The bilateral arrangement will set out the detailed framework. The SAP and SEP will be implemented through amendments to the 2013 Act. The amendments will be made in the Patents (Trans-Tasman Patent Attorneys) Amendment Bill for which drafting instructions are being prepared.
- 59 Most of the legislative changes required relate to the “mechanics” of filing and examining patent applications. The 2013 Act leaves these matters to regulations. Most of the amendments will therefore be in the form of regulation making powers. It will be necessary to provide regulation making powers to allow the Commissioner of Patents to:
- i. Receive Australian applications, associated documents and fees, on behalf of IP Australia.
  - ii. Prescribe that certain documents and fees relating to New Zealand applications filed with IP Australia are deemed to have been filed with IPONZ.
- 60 It will also be necessary to explicitly provide the Commissioner of Patents with the power to delegate his or her statutory powers to personnel of IP Australia.

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### *SEP pilot program*

- 61 An initial SEP pilot program will be run involving a small number of corresponding applications. The pilot program will be assessed to determine whether the SEP provides the expected benefits to applicants, IPONZ and IP Australia, while ensuring that examination quality and consistency are maintained. The pilot program will not be possible without the legislative amendments described above.
- 62 During the pilot program information regarding the working of the SEP will be collected at all stages of the SEP from participating applicants and patent attorneys. The pilot program will run for 18-24 months to ensure that there are sufficient applications processed to provide meaningful information and the examination processes can continue for the full prescribed period.
- 63 The results of the assessment will be used to determine whether any changes to the regulations and procedures relating to the SEP process are required before it is fully implemented. The review will include further consultation with stakeholders, and a RIS will be prepared if appropriate. Cabinet approval will be sought on a decision whether to fully implement the SEP within three years of implementing the pilot program.

### **Monitoring, Evaluation and Review**

- 64 Following completion of the pilot program and Cabinet approval to fully implement the SEP, the Ministry will continue to monitor and evaluate the implementation of SAP and SEP to ensure that these processes are meeting their objectives. This monitoring and evaluation will be conducted in collaboration with IP Australia, and will include collecting feedback from applicants and patent attorneys. Patent examination standards will be monitored to ensure that IPONZ and IP Australia examiners are working to the required standards of quality and consistency.
- 65 There will be a formal review of the SAP and SEP five years after full implementation.