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The voice of business

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14 March 2011

Computer Program Examination Guidelines
Ministry of Economic Development
P O Box 1473
Wellington

Atten: Warren Hassett

Email: patentsbill@med.govt.nz

Dear Warren

Re: Examination Guideline: Patentability of Inventions involving Computer Programs

Background

I am writing to you in response to the draft guidelines released by IPONZ in relation to the patentability of inventions involving computer programs.

This is the first time BusinessNZ has submitted on this issue since the Patents Bill was introduced. Previously, we had been monitoring the situation and generally felt that concerns raised by key players, as well as specialised industry groups like NZICT, were being properly addressed by the Government. However, the situation regarding Clause 15(3A), as well as further complications with the release of draft software patents guidelines have led us to submit on what we believe are key issues that need to be addressed to avoid future uncertainty for the business community.

Ensuring the correct structure for regulatory investigations

As we have commented in various submissions over previous years, regulatory changes require a proper path, as it is crucial that policymakers take a step back and ask a series of related questions. These include – but are not limited to:

- Is there a problem *in New Zealand* with current regulatory settings (i.e. are there significant issues of "market failure" which need to be addressed)?
- If there is a problem, is the problem significant?
- What are the costs and benefits (including unintended costs) of any proposed changes outlined in the document?

- What are the potential options for improving outcomes which don't impose significant costs (e.g. by educating market participants)?

Examining the timeline of events over the last decade in terms of major patent change shows the Government as generally adopting a considered and gradual approach leading up to the Patents Bill, with many proposals strongly supported by submitters because of the high level of consultation and analysis that had taken place beforehand.

Therefore, BusinessNZ is perplexed as to how a process that started and continued through with a high level of consultation and considered views over the last ten years seems to have fallen at a crucial hurdle in a key area many considered would be left unchanged, as indicated during all stages of the consultation process up until the proposed Clause 15(3A) exclusion was introduced in March 2010. This has led to confusion and uncertainty for many in the business community.

Significant policy change at the 11th hour

While BusinessNZ does not believe it necessary to go into details outlining events leading up to the current situation, there appears to be a serious discrepancy between what many submitters either favoured or expected the Government to do, and what has actually transpired in the revised Bill. While we have no problem with rigorous policy debate that can lead to changes of direction if signalled early enough, with strong justification/evidence, there comes a point where certain policy views become, for want of a better term, *naturally embedded* during the process because they will produce sound policy outcomes, almost universally agreed on. Therefore, such views remain untouched during the later stages of the consultation process.

If we go back to the outcomes of discussion documents on patents in 2002/2003, there did not then appear to be any moves towards restricting or excluding software patents (which have been available in New Zealand since 1995). Even the Draft Patents Bill (2004) and the original Patents Bill (2008) continued to take that stance. Officials outlining this same position in private sector publications as late as June 2009, sending an overwhelming signal that software was not going to be excluded from patentability.

Therefore, it came as a surprise to many when Clause 15(3A) was included as a late change in the Bill, namely:

Clause 15 Other exclusions:

(3A) A computer program is not a patentable invention

This represented a significant change of view by the Select Committee, and one which should have led to interested parties having the opportunity to re-submit. Yet, this option was never provided (although we know of some submitters who nevertheless wrote to the Committee outlining the potential pitfalls arising from this late change).

Subsequent statements by the Minister of Commerce have indicated that this clause will not be changed in any way and will remain in the Bill. Furthermore, the introductory notes for the draft IPONZ guidelines state that *"in releasing the draft guidelines for comment, it is not intended to re-open the debate regarding the patentability of computer programs, or whether an amendment should be made to clause 15(3A)"*.

From BusinessNZ's perspective, this refusal is disappointing. This issue needs to be re-investigated given important issues subsequently raised by submitters and the inability for submitters to properly reply to the late change. At the every least, such late changes should clearly answer fundamental policy-related questions like those mentioned above, such as why software exclusion was introduced in the first place, and what type and degree of market failure means businesses should now be prevented from applying for patents in this area? Regrettably, no evidence has been put forward to support a policy-based reason for the late change.

In addition, we believe the potential problems with clause 15(3A) will not be eased by the draft guidelines IPONZ are looking to introduce to ensure some software can still become patentable (which is discussed in more detail below). We are also concerned that associated issues relating both to the clause and the guidelines have far wider implications than many think. Typically, fewer than 10% of patents are issued to software companies, which means patents are issued to various firms across many industries. This is not a specific industry problem, rather a matter that requires quality solutions for a broad cross-section of New Zealand businesses. In short, trying to fix one bad policy with another will not produce the right outcomes for the New Zealand's competitiveness and economic growth.

Therefore, BusinessNZ believes that any attempts to solve problems in this area need to go back to the original source of the difficulty, namely re-investigate Clause 15(3A) and ensure it is open to proper consultation and submissions from all interested parties.

BusinessNZ's Primary Recommendation: That Clause 15(3A) is re-opened for consultation so that all affected parties are given a proper opportunity to submit.

Notwithstanding our primary recommendation above, we also wish to provide some overarching comments on the draft guidelines themselves.

IPONZ Draft Guidelines – Clarity and Certainty are Paramount

Following on from the inclusion of clause 15(3A) in the revised Bill, the Select Committee agreed to still allow some software-related inventions to be a patentable invention. The Select Committee's notes in the revised Bill states that: *"We are aware of New Zealand companies who have invested in a significant number of software-related inventions, involving embedded software. We received advice that our recommendation to include computer programs among the inventions that may*

not be patented would be unlikely to prevent the granting of patents for inventions involving embedded software."

As the notes on the draft guidelines state: *"This consultation exercise is intended to ensure that IPONZ gives proper effect to the provisions of the legislation, taking into account of the intentions of the Commerce Select Committee, in a manner that is likely to find support from a New Zealand court"*. Therefore, the relationship between the legislation and IPONZ guidelines needs to be very clear, with as little room for ambiguity as possible.

It would be fair to say that the development of guidelines before a Bill is introduced is uncommon. Nevertheless, we acknowledge the Government's transparency in providing interested parties with the opportunity to comment so that the guidelines provide IPONZ the tools necessary to address the legislative exclusion if issues are taken to the courts.

However, as the guidelines currently stand in relation to what is stated in the Bill, there appears to be a fundamental problem, namely the disconnect that exists between what is written in the Bill and what the overall guidelines say.

If a case involving software-related inventions were to go to the courts in the future based on the proposed legislation and guidelines, there is every possibility that the guidelines would have little, if any, legal impact. Courts invariably place more weight on statutes than they do on guidelines. In other words, the current language of the Bill's clause indicates blanket exclusion, with the guidelines likely to be ignored. If this were to be the case, this would point to a significant problem around clarity and certainty for software-related inventions in the future.

The other main issue we wish to outline is that in terms of the guidelines themselves, we understand that the Commerce Select Committee was advised by officials in January 2010 that IPONZ would adopt either UK or European practice to achieve the goal of protecting software inventions that are important to New Zealand industry. However, we have been informed by various interested parties and former submitters to the Patents process that while IPONZ has adopted some parts of the guidelines from the U.K, it has done so in a way that would make the guidelines much harder to use than is currently the case in the U.K. where the practice has evolved significantly beyond what the draft guidelines propose and has increasingly sought consistency with Europe.

We accept that striking the right balance when looking to adopt offshore regulations or guidelines can often be a difficult process to get right. It is an issue that BusinessNZ often comments on as we know that New Zealand does not live in isolation from other countries. International movements and trends need to be taken into account when domestic regulations/laws are examined, much like the private sector needs to observe and respond accordingly to consumer trends or product changes offshore.

While we support moves that lead to closer economic relations between countries we typically trade with, we have always taken the view that harmonisation of laws or regulations should occur only if there is a clear net economic benefit to New Zealand. We are increasingly of the view that the debate around harmonisation has become far too simplistic over time, and as a consequence, overlook some fundamental differences in terms of what should or should not be examined for harmonisation.

Because of these fundamental differences, BusinessNZ has often submitted on instances of regulations which for competitive purposes are clearly unpalatable for New Zealand, either because they will simply not fit with New Zealand's associated laws, or will place greater regulatory requirements on New Zealand businesses.

However, in this instance we believe the Government has failed to fully appreciate the need for better harmonisation of guidelines to reduce problems associated with clarity and certainty for the businesses affected. In fact, one could argue that patents are one of the most important issues in terms of proper cross-country regulation given the increasing emphasis placed on the existence of a global community. Businesses who seek patents ordinarily apply in multiple countries. Therefore, inconsistencies in the examination rules from one country to another oblige businesses to modify patent applications for a single invention to match the technicalities of each country. In this context, inconsistencies that are not based on sound public policy impose unnecessary costs on businesses. This is why patentable subject matter and examination criteria have been trending towards regional, and increasingly, global consistency.

Therefore, BusinessNZ recommends that if Clause 15(3A) is not re-investigated, then the draft guidelines should be changed to ensure they follow offshore guidelines to greatly enhance clarity and certainty for New Zealand businesses.

Recommendation: If Clause 15(3A) is not re-investigated, then the draft guidelines are changed to ensure they follow offshore guidelines to greatly enhance clarity and certainty for New Zealand businesses.

Looking ahead: improving the quality of regulatory investigations

More than anything, how this issue has evolved illustrates to us the importance of transparent and proper regulatory investigations that are conducted without haste, ensuring submitters do not end up being effectively side-swiped towards the end of a lengthy consultation period.

As BusinessNZ has continually discussed, the need for a combined approach to quality regulatory practices, such as meaningful and robust RIS statements, an independent commission to analysis such issues (i.e. the New Zealand Productivity Commission) and the introduction of a Regulatory Responsibility Bill (RRB) would assist in minimising such occurrences.

On that last point regarding a RRB (which will be re-introduced as a Government Bill this year), we would point out that given the lack of clarity and uncertainty between

the Patent Bill and the guidelines as they stand, there is every possibility that a failure to properly address these problems will lead to this issue being heard by the courts under the auspices of the Regulatory Responsibility Act, once it is in force.

In summary, BusinessNZ's recommendations are:

BusinessNZ's Primary Recommendation: That Clause 15(3A) is re-opened for consultation so that all affected parties are given the proper opportunity to submit.

Notwithstanding the primary recommendation above, if Clause 15(3A) remains unchanged, then BusinessNZ recommends that:

Recommendation: The draft guidelines are changed to ensure they follow offshore guidelines to enhance clarity and certainty for New Zealand businesses.

Thank you for the opportunity to comment.

Kind regards,

Phil O'Reilly
Chief Executive
BusinessNZ