



## **The Future of Utility Models**

*Special Feature by AIPF Patent Committee*

March 15, 2020

### **Introduction**

A number of countries<sup>1</sup> around the world have a “second tier” patent system with a lesser term than a “standard” patent. Second tier patents are called “utility models” in most countries. The second tier systems differ in detail, although there is generally either a lower inventive height or restrictions on the subject matter that may be covered, or both. The second-tier patents are generally granted without substantive examination. They are mostly used by small and medium size enterprises (“SMEs”) or individuals as a way of protecting innovations that may not have the inventiveness required for a “standard” patent, and generally protection is sought only in the country in which the applicant resides.

### **Australia**

*By: Brendan Nugent, Michael Buck IP*

But what happens when the system is not used in this way? In Australia, the second tier patent, known in that country as an “innovation patent”, allows the patent owner to bring a dispute to court within weeks, and without the chance of opposition before the Patent Office. A common strategy for applicants for a standard patent, who are often large, foreign corporations, when they become aware of an infringing product, has been to divide an innovation patent application from the standard patent application and litigate with the innovation patent. This strategy is far removed from the ideal expressed above concerning protection for low level innovations by SMEs in their home country.

The Australian Government has decided to remove the possibility of filing innovation patents with effect from 26 August 2021. Strategic use of the system is certainly a factor, but the potential for low level monopolies to create a barrier to innovation appears to be the main driver for this decision. Traditional utility models and other second tier patent systems may have less potential for strategic use than the Australian system, but, even so, the demise of the Australian innovation patent could cause the economic impact of those systems to come into question.

### *The Australian debate*

The innovation patent system was established to provide SMEs with a quicker and more affordable way to protect their innovations. To this end, the innovation patent has a lower “inventive height” than a standard patent, requiring merely that changes to the innovation claimed contribute to the working of the thing when it is compared to the prior art<sup>2</sup>. However, an

Inquiry by the Australian Productivity Commission<sup>3</sup> concluded that most SMEs who used the system did not obtain much value from it. In fact, they said:

The low innovative threshold has proven more harmful than helpful, including (perversely) for SMEs. It has encouraged a multitude of low value patents, covering everything from a pet bed to a pizza box that converts to a bib. This, in turn, has reduced the credibility that patents provide for attracting finance for commercialisation, and created uncertainty for other innovators who are unsure whether they are infringing on another party's patent.

The Productivity Commission argued that the innovation patent system imposes unreasonable costs on third parties who, when looking to introduce a new product, must potentially weave their way through a multitude of low value patents. On this point they said:

“The innovative step is lower than the threshold for standard patents....This contributes to a multitude of low value innovation patents, creating uncertainty for other innovators and financiers, and increasing the likelihood that patent thickets will develop.”

The Productivity Commission was also concerned that innovation patents are used strategically, either to target alleged infringers of standard patents or to increase uncertainty over the scope of rights for competitors. According to the Productivity Commission:

“Patent attorneys openly advertise ways in which users can game the system, including to improve their bargaining position in patent disputes and to frustrate entry by competitors.”

As options for addressing this strategic use, they discussed, (a) introducing mandatory substantive examination, (b) limiting the period in which damages could apply, or (c) limiting the remedies for infringement<sup>4</sup>. Despite this, the Productivity Commission felt that abolishing the innovation patent was better since it would simplify the overall patent system, reduce administrative and transaction costs, and remove the ability for patent holders to use the system strategically.

The view of the Productivity Commission was made abundantly clear in their conclusion:

To the extent that innovative and socially valuable ideas currently receive protection under the [innovation patent system], these would be expected to receive protection under the standard patent system. Innovations that would not pass the inventive step threshold under the standard patent system are more likely to impose net costs on the community, and should not receive protection. [emphasis added]

### *Repeal of the Australian innovation patent*

The legislation repealing the innovation patent will take effect from 26 August 2021.

If an innovation patent application is filed on or after 26 August 2021, it will not pass the formality check and cannot be granted. As a result, the last day for applicants to file new, non-divisional, innovation patent applications will be **25 August 2021**.

However, the system continues after that date, so:

- New divisional applications for innovation patent applications will still be able to be filed on or after 26 August 2021 if they are based on complete applications filed prior to 26 August 2021 (i.e. having an effective filing date earlier than 26 August 2021),
- A PCT application filed prior to 26 August 2021 can still enter the national phase as an innovation patent application,
- An innovation patent can be examined at any time during its 8-year life, and the Australian Office will still examine and certify any validly filed innovation patent, and
- Existing innovation patents will continue so long as the relevant acts, such as paying renewal fees, are undertaken, and certified innovation patents will be able to be enforced.

Ironically, the possibility of the gaming of the system of which the Productivity Commission complained exists so long as a complete application filed before 26 August 2021 is pending. With the current delays in examination, the possibility of filing innovation patent divisional applications will not close completely until at least 2025.

### **New Zealand**

*By: Brendan Nugent, Michael Buck IP*

A second tier patent system, to be called the “advancement patent”, was proposed for New Zealand in 2018. The Parliamentary debate on the Advancement Patent Bill was short-lived. The Bill was a Private Members Bill<sup>5</sup> and the Government did not support it, saying in debate in Parliament<sup>6</sup>:

One of the real problems that has occurred is that if we extend [the grant of a monopoly right] to too low a threshold, it simply means that silly ideas [would be granted monopoly rights]—in fact, there was an invention in Australia of a pizza box that could be used as a bib. Now, handy as it might be, it's not something we need a patent for. We don't want people locking up ideas and shutting people out. Interestingly, this is used in Australia not by small businesses to innovate but by large businesses to appropriate knowledge [for] themselves and shut out small players, and that's not what we need in New Zealand.

It is abundantly clear, in the robust language of a Parliamentary debate, that the New Zealand Government did not feel that protecting lower level innovations was economically sensible.

### **The Netherlands**

*By: Brendan Nugent, Michael Buck IP*

The Netherlands introduced a “short term patent” in April 1995, but in June 2008 they stopped accepting applications for short term patents. As is common in most second-tier patent systems, there was no examination for novelty and inventive step at the patent office, and the view in Netherlands was that the unexamined six-year patents created legal uncertainty for competitors<sup>7</sup>.

### **Mexico**

*By: Victor Garrido, Dumont*

The Mexican law contains provisions for utility model protection of objects, utensils, apparatuses, or tools, which as result of a modification in their arrangement, configuration, structure or form, provide a different function with respect to their component parts or advantages with respect to their use. Accordingly, utility model protection is not available to methods or processes, nor for compositions or formulations.

In order to obtain registration, an invention must also be novel and industrially applicable. Both requirements are evaluated to the same standard as for patents, but an inventive step is not required.

The prosecution of utility model applications is similar to the prosecution of patent applications. There is a twelve-month grace period for previous disclosures made by the inventor or its assignee, priority rights under the Paris Convention can be claimed, and applications must undergo both administrative and substantive examination. Applications were not previously published until grant, but amendments to the law were introduced in 2018<sup>8</sup>, establishing publication as soon as possible after the administrative examination is concluded. Consequently, anticipated publication cannot be requested and, allegedly, publication cannot be delayed either. Unlike patent applications, there is no way to use third party observations against a published utility model application.

If suitable, a utility model application can be converted into a patent or industrial design application, or *vice versa*, either voluntary within three months from the filing date or any time during prosecution at the request of the Patent Office. An international patent application being prosecuted under the PCT can enter the national phase in Mexico as a utility model application. The current inextensible term for registrations is ten years. However, this might change in the near future, as there is currently a bill for enacting a new industrial property law proposing the extension of the protection term to fifteen years<sup>9</sup>. The rights conferred to the registration owner are similar to those conferred to a patentee: exclusive rights for exploiting the invention, rights to initiate preliminary measures, as well as rights to claim damages from infringers.

Generally, the prosecution time for a utility model application is significantly shorter than that of a patent application. Nonetheless, there is no evidence that the utility model system is being used to bring infringers to court quicker than, or instead of, using the patent system. Official data indicates that around 85% of utility model applications are submitted by domestic small and medium sized applicants<sup>10</sup>. This suggests that the system is being used by players that wish to have protection on gradual improvements of their technology without specific focus on litigation.

## **China**

*By: Xin Hong, Insight Intellectual Property Attorneys*

The utility model granted in China only has a 10-year term. As in many other systems, the inventive height is lower than for a standard patent and there are restrictions on the subject matter. Utility models may only be granted for products characterized by an improvement in the shape and/or structure of the product. Methods and processes are ineligible.

Since substantive examination is not required, predictably, the granted claims are broader in scope than those possibly granted in a counterpart standard patent. A utility model is granted quickly; normally within 6-10 months after the application is filed.

In view of the advantages of a utility model, e.g. quick grant, broader granted scope, cost saving, and easier enforcement compared to standard patents, the utility model system is favored by many local enterprises. In 2018, about 2.072 million utility models were filed while 1.542 million standard patent applications (patent applications of invention) were filed<sup>11</sup>. In 2019, 2.268 million utility models (increased by 9.5% compared to 2018) were filed while 1.4 million standard patent applications (decreased by about 9.2% compared to 2018) were filed<sup>11</sup>. Examiners are now taking objection to lack of novelty, lack of enablement, lack of support, and ineligible subject matter in addition to more mundane formal issues during the formalities examination. Even so, since the inventive height is lower than a standard patent the scope of the claims granted will often be broader than those that could be granted for a standard patent. In fact, the examination in the standard patent application is now stricter than before as well, so some of the decrease in 2019 in standard patent applications may be because some standard patent filings have been transformed to utility model filings.

It is a common view that many “junk” or low quality patents utility models are granted, and that these have the potential to impede business activities, and even the progress of the science and technology. The system could also be used by patent trolls to lodge lawsuits against domestic and foreign industrial enterprises, since only a search report issued by the search division of the patent office is required to launch an infringement dispute before a Court. As a result, the patent office has implemented some policies to restrict the grant of utility models and improve patent quality, as discussed above. However, it seems that this may not have been achieved since the statistics for 2019 new filings show an increase in new utility model applications.

While there may be debate about utility models at an academic level, there is currently no proposal to amend the legislation, and no timeframe for any such legislation.

## **Japan**

*By: Tomoyuki Serizawa, Shin-ei Patent Firm*

The subject matter to be protected by utility model law is limited to the shape or structure of a product. Methods, manufacturing methods and software cannot be protected under the utility model law.

The term of protection for a utility model is 10 years from the filing date. There is no substantive examination, but a utility model owner needs to request a technical opinion on the novelty and inventive step of the registered utility model with the JPO if they wish to enforce the utility model right.

The subject matter of a utility model must be novel and involve an inventive step. The inventive step of a utility model is rejected in a case where a person skilled in the art could have extremely easily achieved the utility model<sup>12</sup>. To the contrary, in the patent law, the inventive step of an invention is rejected in a case where a person skilled in the art could have easily achieved the

invention<sup>13</sup>. Despite the difference in the test, the levels of inventive step for patent and utility model as applied in actual practice are not substantially different from each other in view of the Examination Guidelines.

A utility model application is usually registered in 3 to 5 months from the filing date. It is only possible to amend utility model applications within one month from the filing date. Correction for registered utility models is admitted only once and cannot be used to amend utility models to extend the scope. Conversion from a patent application to a utility model, and *vice versa*, is possible.

A utility model owner needs to give an infringer a warning and provide the infringer with the technical opinion issued from the JPO before enforcing the utility model right<sup>14</sup>. A utility model owner is liable to compensate for damages caused by the enforcement of the utility model right in a case where the utility model right is made invalid after the enforcement<sup>15</sup>.

About 5300 utility models were filed in FY2018. The system in Japan may not be attractive for users who want to strategically utilize the utility model rights in view of the following:

- Limitation of the subject matter: The subject matter is limited to the shape or structure of a product.
- The level of inventive step: The levels of inventive step for patent and utility model are not substantially different from each other in view of the examination guideline and actual practices.
- Earlier publication: Utility model applications are usually registered in 3 to 5 months from the filing date and then published.
- The term of protection: The term of protection for utility model is shorter than that for patent (10 years vs 20 years).
- Liability of utility model owner: A utility model owner is liable to compensate for damages caused by the enforcement in cases where the utility model right is made invalid after the enforcement. Thus, an injunction based on utility model right involves a high risk.

As discussed above, a relatively high level of inventiveness is required in the utility model system as a matter of practice. A utility model right may be granted with a lower inventive height (since there is no substantive examination) but it is likely to be invalid, and thus enforcement based on such a utility model right involves a high risk in view of the liability of utility model owner.

Currently, there is no movement to remove the utility model system in Japan. As described above, utility models have many disadvantage points as compared with patent, and thus large companies do not utilize utility models at all. However, utility models are sometimes filed by for SMEs and individual inventors in view of the lower costs and shorter periods to grant.

## **Spain**

*By: Ralph Gauger, MGM Patentes & Marca*

Utility Models in Spain are governed by the Spanish patent law 24/2015 of July 24, 2014, in force since April 1, 2017.

Utility model protection in Spain is available for inventions which are new, the result of inventive activity and which add a configuration, structure or composition to an object or product resulting in an appreciable practical advantage in its use or production. Process inventions, plant varieties and other biological substances or organisms as well as pharmaceutical products and compositions are explicitly excluded.

Inventive activity is present unless the invention is very obvious considering the state of the art. Applications undergo administrative and formal examinations before publication and will be granted in the absence of opposition. Publication at times occurs within one month of filing and decisions of grant are often obtained in less than 6 months. In general, more than 90 % of all applications filed are granted. This means the Spanish Utility Model is an easily obtainable and economically very affordable IP right.

While the lack of a search report does at times result in questionable filings, the Spanish Utility Model produces Convention priority rights and can always (prior to substantive examination) be transformed into a patent. Conversion of patents into utility models is also possible. It is mainly Spanish individuals and companies who make use of Spanish Utility Model, and they account for more than 95% of all granted utility models.

Protection of inventions is low when compared with other developed countries. The total numbers over the last 15 years fluctuate between 22,000 and 34,000 inventions via National patent or utility models, PCT national phases and via European patents, the majority of which are validations of patents held by non-Spanish owners. European patent validations constitute over 80% of these<sup>16</sup>. With PCT national phases making up a negligible fraction of the total, the remaining 15-20% of inventions are protected by national patents or utility models, where utility models cover slightly more than half of these<sup>17</sup>.

Apart from the economic factors and simple procedures for obtaining utility model protection the Spanish Utility Model favors the Spanish market for purely structural reasons. The main sectors of the Spanish economy being tourism and agriculture, Spain has so far not been able to promote a research and development heavy industry.

For the SME's operating mainly in their home market the utility model presents a quick and economic fix producing essentially the same rights as a patent. While the absence of a search report results in a certain inherent weakness and maximum validity is only half of that of a patent, the tradeoff of low costs and procedures that take about as long as a trademark application to mature to registration, produce a regular number of registrations of about 2,500 to 3,000 Spanish Utility Models per year.

The Spanish IP profession does not actively promote Spanish Utility Model protection abroad, although the same factors that make this IP right interesting for national applicants could be of interest to inventors from abroad.

## **Conclusion**

The opportunity remains for those who do wish to file an innovation patent in Australia for now, and plans can be made for the phased closure of the window. While there may be debate in some countries, given the different structure of the other second tier systems reviewed here, there does not seem to be any significant impetus for other countries to follow Australia.

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2. Patents Act 1990 S7(4). See also *Dura-Post (Aust) Pty Ltd v Delnorth Pty Ltd* [2009] FCAFC 81 where the use of sprung steel in the manufacture of bendable roadside posts was found to be innovative over prior disclosures of posts made of plastic or fiber-reinforced synthetic material. While the various materials have the same objective (flexibility), the materials themselves are different and the use of sheet spring steel was a significant aspect in the operation of the roadside post and was found to make a substantial contribution to the working of the device.
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<https://www.pc.gov.au/inquiries/completed/intellectual-property/report>
4. In *Coretell Pty Ltd v Australian Mud Co Pty Ltd* [2017] FCAFC 54, it was established the earliest date of entitlement to relief for infringement of an innovation patent is the date of grant. The position previously was that relief could be claimed back to the date of filing the parent when the innovation patent was a divisional.
5. A Private Members Bill is a legislative bill that is introduced by a private Member of Parliament and is not part of a government's planned legislation. Such bills rarely become law.

6. Speech by Dr Duncan Webb Hansard 8 August 2018  
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12. Art. 3(2) of the utility model law
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