

Fineprint

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Changes to the Patent Protection Landscape

Crystal ball gazing into proposed patents legislation

New Zealand patents are legislatively governed exclusively by the Patents Act 1953. Given the huge changes in the world of medicine, computing and biotechnology over the last half century, it is not surprising that this legislation is, in many cases, being somewhat stretched. This article looks at what is currently patentable and indulges in some crystal ball gazing to see what changes may be made in proposed legislation.

The Ministry of Economic Development (MED) following a review of the Act released a discussion paper in 2002. In the paper, six areas for further discussion were highlighted:

- ¥ The definition of an invention
- ¥ Maori and patenting biotechnology
- ¥ Patentability of biotechnology
- ¥ Patentability of business methods and software
- ¥ Patents for methods of medical treatment of humans
- ¥ Stringency tests for determining patentability

One of the key shortcomings identified with the Act is ascertaining the thresholds that determine patentable and non-patentable subject matter.

The following discussion examines what is currently considered patentable under the existing legislation. We also look at the changes, if any, that may occur to what constitutes patentable subject matter under the proposed new legislation, likely to be enacted sometime in 2005.

Existing Patentability

In order to be patented, an alleged invention must fall within the section 2 definition of an invention defined as:

Any manner of new manufacture and any new method or process of testing applicable to the improvement or control of manufacture; and includes an alleged invention. s2.

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This definition is far from clear cut and can be quite problematic, particularly when faced with certain types of invention which are founded upon a discovery emanating from that which is found in nature, such as may occur in the field of biotechnology.

... The granting of patents is necessary to stimulate innovation.

The Act is silent as to what does not qualify as an invention. To bridge the gap the courts have interpreted the above definition to determine that the following categories of invention are excluded from the definition of an invention:

- ¥ Products of nature
- ¥ Mathematical algorithms
- ¥ Mere schemes or plans
- ¥ Bare principles
- ¥ Mere discoveries
- ¥ Information
- ¥ Methods of medical treatment of humans

There is no specific bar to the protection of business methods and/or software under the existing legislation. There has been worldwide controversy on the granting of these types of patent. Business methods include patents such as the Amazon one-click patent and patents protecting methods of administering, managing, or otherwise operating an enterprise or organisation, including a technique used in doing or conducting business.

Historically, business methods and computer software technology were not considered suitable subject matter for patent protection. More recently however, developments in computer technology, particularly the Internet, have made business method patents a potentially large source of income for patent owners as the USA and other countries begin to allow the protection of such material.

Crystal ball gazing

It is difficult to comment comprehensively on the proposed legislation as details have yet to be finalised.

However, some insights as to the likely direction of the proposals can be gleaned from Cabinet papers published in August 2003; these are available on the MED website www.med.govt.nz

What could be patentable?

At present the recommendation is that the current definition of an invention be largely retained but that there be an amendment to include additional criteria for patentability, namely the invention must be novel, involve an inventive step and be useful.

In relation to the proposed criteria it is noteworthy that:

- ¥ *Novelty* is already a criterion under the Act required before IPONZ (Intellectual Property Office of New Zealand) will grant a patent;
- ¥ *Inventive step*, is not an existing criterion that IPONZ need consider before issuing a patent, but is a ground for third parties to oppose the grant of a patent or to revoke a patent — i.e. it is already a ground of invalidity under the Act; and
- ¥ *Usefulness* (i.e. that the claimed invention is useful) is a ground for opposing or revoking a patent under the Act.

It can be seen that the only real practical difference of specifically including the above criteria for patentability in the proposed legislation will be that more stringent examination of patent applications should occur before a patent is granted. The aim is to reduce the number of invalid applications being granted and therefore having to be opposed, or revoked, by third parties.

What may not be patented under the proposed legislation?

Many of the existing bars to obtaining patent protection are likely to remain. These are likely to include a non-allowance of claims that may include humans within their scope and other exemptions such as products of nature, purely mathematical algorithms, mere schemes (i.e. plans, and so on.

Two areas still under debate are the acceptance of methods of medical treatment of humans and acceptance of business method patents.

The present position regarding methods of

medical treatment of humans is being challenged in the Court of Appeal by pharmaceutical giant, Pfizer. If Pfizer is successful the existing situation, with respect to methods of medical treatment, may yet alter.

However, in the Cabinet paper on patentability it was recommended that methods of medical treatment of humans be specifically excluded from patentability. Consequently, the final outcome on the patentability of methods of medical treatment of humans still remains to be seen.

The granting of patents for business methods and software has generally been criticised on the basis that Patent Offices do not have the appropriate expertise to adequately examine all applications in these fields. It has been alleged that this has resulted in patents being granted for business methods and software that are not novel or inventive.

It has also been suggested that business methods should not be patentable at all, as the patenting process that allow patents for business methods may, in fact, stifle innovation in these fields rather than encourage it.

The flip side of this argument is that the granting of patents is necessary to stimulate innovation. Inventors of computer software and business methods are entitled to protection for their intellectual property (as are other inventors) and that there is no logical reason to exclude these things from patentability. Furthermore, with Patent Offices now employing people such as IT specialists, the expertise issue is likely to diminish. Watch this space for new developments.

To conclude

In practice, under the proposed legislation, provided you have a useful invention which is not immoral or subject to any cultural concerns, there is likely to be very little shift in terms of what is patentable in New Zealand. If your invention is only of borderline patentability under the present Act, then your position is unlikely to change under the new legislation.

This article is the second in an occasional series on intellectual property by IP experts, Robert Snoep and Jason Rogers of James & Wells.

Farmland Transactions

Ensure we look over the Agreement before it is signed

Farmland transactions are a significant event — for both the vendor and purchaser. Negotiating and completing an Agreement for Sale & Purchase for farmland is a complex process. It raises a number of issues that are not always as straightforward as you might think.



Once the Agreement for Sale & Purchase has been signed, there is often little we can do to change the Agreement. The commonly used subject to solicitor's approval clause generally only allows for limited amendment in relation to matters of a legal nature.

Matters relating to farm management and husbandry are generally not matters covered by a solicitor's approval clause.

It is therefore imperative that you discuss the Agreement with us before you sign it. This ensures you are buying what you believe you are buying; and that the special conditions that will usually have been drafted by the real estate agent mean what you think or intend them to mean.

Special farm issues

All too often we encounter transactions where matters such as dairy company shares, GST, fertiliser application, pasture cover, drops and water supply easements are not dealt with adequately in the

Agreement. Sometimes these issues are left out of the Agreement altogether; it is believed they have been dealt with on the basis of a verbal understanding between the parties.

These matters often become significant issues at a later stage when it becomes apparent that there has been a misunderstanding between the parties over what they thought was agreed to.

Disputes

Disputes and unresolved issues at the time of settlement exacerbate what is usually a stressful time for all involved, not to mention the time and money it can cost.

Where an issue arises over the obligations of either the vendor or the purchaser under the Agreement every endeavour should be made, if possible, to resolve and settle the issue prior to settlement date.

In farmland transactions, in most cases, the sorts of issues that arise are of a practical, rather than legal, nature. Provided

both parties are fair-minded people, we can usually negotiate a commonsense solution before settlement day.

When there is a dispute that becomes contentious, we can call upon a number of suitably qualified farm advisers to provide some guidance or to become a neutral referee to make a decision for the parties.

Ideally, however, the Agreement should include a clause that will provide for a remedial process in the event of any issues that become contentious. For example, a farm consultant can be nominated to make a decision which will be final and binding on both parties in relation to husbandry issues such as pasture cover.

This process has the advantage of enabling the issues to be settled quickly and cost-effectively so everyone can move on. This is preferable to having vendors or purchasers raising an issue at the 11th hour and demanding that a deduction be made on settlement or monies retained or even possession denied. As a matter of law, a party is not entitled to unilaterally withhold money on settlement unless the Agreement makes express provision for this — and it usually does not.

In some situations, a party will settle on a without prejudice basis or subject to reserving their rights to make a claim against the other party for breach of contract. Both the vendor and purchaser are then faced with the time and costs of resolving the dispute post-settlement, and people usually end up feeling a bit scorched in the process.

Taking the time to get advice from us before signing an Agreement for Sale & Purchase can avoid unnecessary anguish and cost at a later stage.

When Good Chattels Go Bad

The importance of a pre-settlement inspection

When you are buying a new house the work doesn't end when the Agreement becomes unconditional. You may think that once you have obtained valuations, finance approvals, builders' reports and a LIM that you have done all you can do to ensure the house you are buying is suitable. But there is one further and very important step — the pre-purchase inspection.

Every Agreement for Sale & Purchase entitles the purchaser to one further inspection of the property before settlement. Often purchasers get so caught up in the rush of packing, making moving arrangements and signing legal documents that they forget to make time for this all-important final inspection. Sometimes it becomes difficult to pin down a time with the real estate agent and/or vendor to make this last inspection. However the pre-purchase inspection must be carried out to make sure the property and the chattels are in the same condition as when you viewed the property before making an offer.

Timing

Make sure the inspection is carried out at least a day or two before settlement. Having an inspection the night before does not leave a lot of time to sort things out if you suddenly discover that the stove doesn't work. The last thing you want is to be arguing over a broken window at 3pm on settlement day when your moving truck was booked for 10am! Likewise it is hard to argue over ripped carpet the day after settlement when you have

already paid the vendor the entire purchase price.

Test those chattels

At the pre-purchase inspection it is important to ensure that all the chattels listed on the Agreement are in the same condition as when you viewed the property. Take the time to check the entire property, turn on the stove, look in cupboards, test the shower, etc. Make a list of any problems you see and chattels that do not work.

The real estate agent's role

Your real estate agent is a useful resource at this time. Give your agent a copy of the list and have them pass it onto the vendor. This will often save time and can result in a resolution before settlement day.

The Agreement

The fine print in the standard Agreement provides a warranty from the vendor that all chattels are delivered to the purchaser in the same condition as at the date of the Agreement. This means that any damage to the chattels after the Agreement is signed is covered by the warranty.

Fix it!

The vendor does not have an obligation to fix the chattels prior to settlement. If the chattels are damaged then the purchaser is only entitled to compensation for that damage from the vendor. Settlement cannot be delayed because the chattels are damaged.

Compensation

The amount of compensation will be up for discussion. Obviously if you carry out your inspection early enough you will have time to obtain quotes for the repair of the chattels and that will determine the amount of compensation. When time becomes an issue, compromises may be made over the amount of compensation and purchaser may be stung with larger repair bills than anticipated.

Do the inspection

Our best advice is to make use of the ability to make that final inspection. Set aside a time at least a few days before the settlement day and view the property again. Test all the chattels and if there are any problems contact us straight away so we can help you get the best possible result.

Proposed Charities Legislation

More compliance will be needed

Tough new legislation on charities is expected to be passed by parliament by the end of the year. The existing definition of charity is not expected to change.

Although still at the Select Committee stage, it is expected that:

- ¥ A new charities commission will be set up which will oversee charitable entities. The commission will register charities, and also will have the power to investigate and deregister a charity.
- ¥ Charities will have to register with the

commission to gain tax relief.

Registration will not only apply to new charities but also to existing charitable organisations. However it appears that registration alone will not guarantee tax-exempt status; charities will still be required to comply with the relevant sections of the Income Tax Act.

- ¥ In a similar manner to the Companies Office database, charities will be listed on a public register and given a registration number.

¥ The public will have access to information on registered charities.

¥ Annual returns will have to be filed within four months of their balance date; it is expected that some financial information will be required as part of the return process.

Although some charities may find the proposed regulations to be onerous, it appears that with good management systems most charities will not find the process too much of a burden.

Investment advice pays off

Over the past 12 months, investors in many diversified managed funds have been delighted to receive double-digit returns (after fees, before tax). This is an exceptional result, especially compared with those investors who have been more narrowly focused only on higher-risk investments, such as property-based debentures yielding 6-10% (before tax), or lower-risk investments such as bank deposits at 5% (before tax).

Of course, human nature means that many of us tend to base our important decisions — especially those concerning money — entirely on emotion, rather than logic. But it is for exactly this reason that the objectivity and expertise of a competent independent financial planner needs to be sought.

Essentially, a financial planner helps identify and quantify a person's financial objectives, and then helps them to achieve those goals. A financial planner will also construct a personal financial plan, covering a range of areas including some or all of the following: cash and debt management, tax planning, risk management (insurance), trusts and estate planning, investment planning and retirement planning.

An adviser can also assist an investor to access wholesale funds, which are usually not open to individual investors. Wholesale funds are those structured principally for professional investors, for example, institutions and corporate investors, and the benefit of investing in them is the economy of scale they provide.

An example of such a product, to which advisers with The Portfolio Group* have access, is Private Portfolio Service (PPS) — a master trust (or fund of funds) comprising 14 different sector funds, each available either as a unit trust or superannuation fund.

For maximum diversification, some of the PPS funds comprise two or three sub-funds managed by a range of several carefully selected fund managers from all

over the world. The managers are selected by the PPS Investment Committee (in consultation with Mercer Investment Consulting), whose role is to provide advice on all investment decisions relating to PPS.

The performance of the PPS funds over the twelve months to 31 March 2004 has been very strong. For example, the PPS International Equities Fund has a six-month return of 6.7% and a 12-month return of 18.02% (as at 31 March 2004, after tax and fees).

Furthermore, as a result of regular scrutiny by the PPS Investment Committee, this fund was recently restructured, helping it adapt to the current investment environment. The objective was to facilitate investment returns based more on careful stock selection rather than simply tracking the broader market indices, as per standard managed funds.

Contact us for a referral to a local financial planner who meets industry best practice standards and who we are confident can provide investment recommendations and financial advice to maximise your financial security.

Source: TPG

*NZ LAW Financial Planning Ltd (wholly owned by NZ LAW Ltd) can offer clients convenient access to a comprehensive financial and investment planning service via The Portfolio Group — a nationwide collective of 34 independently owned and operated financial planning companies.

Essentially, a financial planner helps identify and quantify a person's financial objectives, and then helps them to achieve those goals.

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Walker MacGeorge & Co — Waimate
Welsh McCarthy — Hawera
Wilkinson Adams — Dunedin
Woodward Chrisp — Gisborne

Postscript

Workplace Drug Testing

Random workplace drug testing has been ruled out by a recent employment law case. However, brought by Air New Zealand, the landmark case does allow random workplace drug testing in certain circumstances. Applying only to businesses in a specialised field (such as aviation), the ruling does not give employers the right to test employees for drugs in the ordinary course of a day's work.

Corporate Governance Principles

The Securities Commission recently published a handbook on corporate governance principles.

Nine broad principles are discussed ranging from ethical standards, reporting and disclosure, risk management and stakeholder interests. Entitled *Corporate Governance in New Zealand, Principles and Guidelines — a Handbook for Directors, Executives and Advisers*, the handbook can be downloaded free from www.sec-com.govt.nz or hard copy can be obtained by calling the Securities Commission on 04-472 9830.

Increased farm irrigation could boost economy

Irrigation could boost the New Zealand economy, says a recent report from the Ministry of Agriculture and Forestry. Annual farmgate GDP could be increased by between \$330 million and \$660 million by 2013, says Murray Doak, MAF senior policy analyst. He says increased irrigation has clear benefits to our economy. These must be balanced with recreational and environmental issues.

Water needs to be sustainably managed, so it is important to find a balance between its economic, environmental, social and cultural perspectives, as well as between national and regional interests, says Mr Doak.

If the irrigated areas under agriculture and horticultural production were increased by 201,000 hectares there could be increases in farmgate GDP of about \$330 million annually. Irrigation schemes would be funded about 30% by private developers and the balance being developed by community schemes.

Horticulture would generate the most value from increased irrigation, says Mr Doak. Canterbury would gain the most benefit from such schemes, followed by Hawkes Bay, Northland, Bay of Plenty and the Waikato. To read the full report, look at www.maf.govt.nz

Clean Slate legislation passed

People with minor convictions will soon breathe a sigh of relief; the Criminal Records (Clean Slate) Act was passed in May. The date the legislation comes into force is still to be decided, although it is expected this will be before the end of the year. People with minor convictions, who have not re-offended for seven years, will not need to reveal those convictions. Sexual offences are not included as minor convictions.

The new law will not delete convictions, but they are concealed. Full records will still be maintained by police. The Ministry of Justice is developing a publicity campaign to help employers and the general public come to grips with the implications of this new legislation.