

REGULATORY INSTITUTIONS NETWORK (RegNet)
Genetic Sequence Right Project
Centre for the Governance of Knowledge and Development
Research School of Asia and Pacific Studies
H. C. Coombs Building, Cnr Fellows & Garran Roads
The Australian National University
Canberra ACT 0200
AUSTRALIA

t: +61 2 6125 5465
m: +61 400 606 263
f: +61 2 6125 8503
e: luigi.palombi@anu.edu.au
<http://cgkd.anu.edu.au/>

October 7, 2009

Ms Jacqueline Carroll
ACIP Secretariat
PO Box 200
WODEN ACT 2606

Sent via Email

Dear Ms Carroll

ACIP Interim Report – Review of Post-Grant Patent Enforcement Strategies

I thank ACIP for the opportunity to respond to its Interim Report regarding Post-Grant Patent Enforcement Strategies.

ACIP invites 'further submissions' with regard to the ten proposals made in its Report.

Summary

It would be fair to say that the Report's proposals have been made under a misapprehension, namely, that the current post-grant patent enforcement is inadequate in terms of patent enforcement. Unfortunately the allegation which led to the Inquiry, that "patent owners in Australia [are] concern[ed] [by] the difficulties associated with enforcing their patent rights", was and remains unsubstantiated. Indeed no evidence was referred to in either the Issues Paper (November 2006) or the Interim Report (August 2009) to support, what can only be described as, a bare assertion.

Response

Proposals 1 to 5 – IP Dispute Resolution Centre

This Report fails because it ignores one of the most fundamental premises under which the Australian patent system operates, namely, that no granted Australian patent is guaranteed validity. Not only is it enshrined in the *Patents Act, 1990* by s.20(1), but it means, does it not, that to permit IP Australia, currently the only patent granting authority in Australia, to be part of a post-grant patent enforcement system which involves it reviewing its own decisions and then providing validity and infringement opinions to the affected parties, is untenable. There is a clear conflict of interest and such a system runs foul of the principle that a body which is exercising quasi-judicial authority be independent of the decision under review and the parties involved in that review.

How is it possible for IP Australia to establish an 'IP dispute resolution centre along the lines of WIPO's Arbitration and Mediation Centre' when the simple fact is that WIPO is not a patent granting authority? Unlike WIPO, which is an UN agency that merely administers various intellectual property related treaties, IP Australia is a patent granting agency that is unaccountable to the Australian people other than through the operation of the Australian courts and the scrutiny which they may apply to the decision making processes employed by IP Australia and its interpretation of patent law.

Accordingly, it is unacceptable for IP Australia to be associated with the proposed 'IP dispute resolution centre' the object of which would be to "manage and coordinate a number of enforcement-related services, including a new validity and infringement opinion service; a patent enforcement resource; a register of experts with suitable qualifications from which individuals could be drawn to provide mediation services, expert assessment services, or to preside over a determinative ADR process (such as a patent tribunal); and support services for ADR."

Whatever the perceived benefits of mediation are it is critical that the mediator be, as the Interim Report acknowledges (at page 30), 'neutral'. That WIPO may be able to play such a role does not mean that IP Australia can. They are completely different organisations with different structures, roles and objectives. IP Australia can never be neutral given that its role is to grant patents.

Can my objection be overcome with some other organisation at the helm? If I thought that an 'IP Dispute Resolution Centre' was actually necessary to provide patent owners with greater certainty and improved enforceability then I the answer might be 'yes', but on the basis of (a) the underlying premise that no Australian patent is guaranteed validity and (b) there being no evidence that the Australian courts are providing patent owners with an inadequate service, my answer is 'no'.

First, all patents are subject to challenge. This means that patents, while they may be perceived by the patent owner to be 'property', can be defeated even though they are 'registered' on the patents register. Therefore, they are not the same kind of property as land, which although registered on a government register is not generally, as a rule, subject to revocation. A patent is merely an exclusionary right. It is not a physical thing. Thus its very existence is subject to question in a way that land or chattels are not. Indeed, the basis of the grant of this exclusionary right is dependent upon the veracity and reliability of information which the patent owner provides to IP Australia at the time that the patent application is filed and subsequently as it progresses through the process of examination. Consequently, IP Australia must, to some significant degree, rely on information that the patent owner submits in support of the patent application and because of the complexities associated with prior art examination and technologies which are, by definition, at the leading edge, the grant of a patent by IP Australia comes with a proviso as to validity. As a result, patent owners exaggerate when they alleged that patent infringers are 'stealing' (Carden Industries, 54) their intellectual property and this exaggeration is now producing demands from patent owners or their representatives for patent infringement be consider a criminal act, specifically, that "possible jail for wilful ... infringement ... would stop a lot of potential infringers... ." This fire, unfortunately, is also being stoked by professional industry associations, such as AMPICTA, ("in the case of wilful infringement criminal penalties may be appropriate.") (54)

Clearly, ACIP accepts that patents are not property of the same kind as either land or chattels with respect to which a trespass, or use without permission of the owner, may attract a criminal sanction. This is why, and correctly it is submitted, it did not recommend that criminal sanctions apply to patent infringement (56).

Secondly, there is no evidence that patent owners are being badly treated by the Australian court system. Patent litigation is expensive, time consuming and, at times, tedious, but this has more to do with the imperfect nature of a patent monopoly than with anything either the courts, or mediation for that matter, can rectify. In fact, if the truth be told, the Australian courts system is so heavily biased in favour of patent owners that it is remarkable that anyone could take the complaints of patent owners, as disingenuous as they are, seriously. A patent owner can sue a patent infringer for damages, injunctions (both preliminary and final) as well as seek an account of profits and the delivery up for destruction of any infringing articles. The power which this cause of action provides is enormous and this can be seen by the way large companies will spend millions of dollars to litigate in order to enforce their patents. The rewards are significant for patent owners and, importantly, if their patent is successfully challenged, they do not, at the present time, have to account for the value of the patent monopoly which they enjoyed during the period that the patent was improperly on the patents register. It must be remembered that a patent which is revoked is void *ab initio* (from the beginning). A patent monopoly can have significant economic impacts which are not always positive for the economy and the community. An example of this comes from the US. The US patent for Prozac (fluoxetine), a pharmaceutical used to treat depression, was revoked nearly two and half years before it was due to expire. The estimated "consumer savings", according to the US Federal Trade Commission, was USD2.5 billion. What this means is that the owner of the US Prozac patent, Smith Kline Beecham, was able to retain some USD18 billion which, one might argue, was unlawfully earned as a direct result of an illegal patent.

Patent enforcement has been a perennial thorn-in-the-side to patent owners going back to the very beginnings of the modern Anglo-American patent systems. In 1864 a Royal Commission into the Workings of the British patent system heard evidence of how problematic patent litigation was both because of the ancient procedures that then applied (*scire facias*) and the cost, which was exorbitant. Subsequently, when the first specific UK patents legislation was past in 1884 the action of *scire facias* was abolished and other reforms were introduced to make it easier for patent owners to enforce patent monopolies. That process of law reform has continued and today, due to various international patent and trade related agreements, patent owners enjoy the strongest and most internationally uniform patent laws ever known. True it is that courts continue to be criticised by patent owners, but that criticism whether it be in the US, the UK, Europe or elsewhere will be essentially the same – the high cost of patent litigation.

What this suggests is that patent enforcement is problematic not because the courts are inefficient, but because patent monopolies confer a kind of property right that is vulnerable to revocation. It is, therefore, an imperfect property right and before such a right can be safely enforced against an alleged infringer the patent owner is liable to be put to the test, by the alleged infringer or challenger in a court of law, to substantiate the claims made in support of the original grant. It is that process, which must continue if a patent is to have any credibility and which is the cause of lengthy and costly litigation. It is the process of testing the accuracy and credibility

of the patent owners assertions that are the cause of the high costs of patent litigation, not the courts per se.

This brings me to the crux of the matter. How can a system of mediation bring certainty to patent owners, reduce the cost of patent enforcement and improve the overall efficiency of the patent system? Unfortunately, there is not a shred of evidence that it actually has or can achieved any of these things. Often, mediation is more expensive for the parties than court litigation because, as the Interim Report recommends, the total cost of mediation is borne by the parties. Mediators must be paid for by the parties. So to must the infrastructure of the mediation process. Moreover, it is much more difficult for the parties to be certain that the mediator or mediators are truly independent and neutral. It is increasingly difficult to find experts who are not financially or philosophically biased and so it must also be in terms of finding suitable mediators.

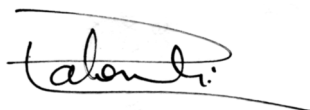
This is not to suggest that the court systems are perfect and that they do not need to be fined tuned. Clearly, I have suggested in other submissions that court reforms are needed, but not to make it easier to enforce patents, rather to make it easier to attack them. It is only by ensuring that the courts have the ability to attract challengers to granted patents that society can be assured that the social good created by the publication of inventions at least equals the social cost imposed by patent monopolies.

The real danger of this misguided recommendation is that IP Australia, a patent granting organisation which is convinced of the correctness of its prior determinations, will be unable to act impartially, resulting in the equilibrium between social costs and benefits which a rigorous system of independent and critical review brings, being displaced.

Proposals 6 to 9 – Ancillary Recommendations

No comment.

Yours truly,

A handwritten signature in black ink, appearing to read 'Luigi Palombi', with a long horizontal flourish extending to the right.

Luigi Palombi, LLB, BEc, PhD.