

REGULATORY INSTITUTIONS NETWORK (RegNet)

Centre for the Governance of Knowledge & Development
Research School of Social Sciences
Coombs Building #8, Cnr Fellows & Garran Roads
The Australian National University
Canberra ACT 0200
AUSTRALIA

<http://www.regnet.anu.edu.au>

t: 02 6125 5465
m: 0406 545 479
f: 02 6125 1507
e: luigi.palombi@anu.edu.au
<http://cgkd.anu.edu.au/>

February 20, 2007

Mr Kostas Arvanitis
ACIP Secretariat
PO Box 200
WODEN ACT 2606

Dear Sir

Post-Grant Patent Enforcement

THERE IS NO PRESUMPTION OF VALIDITY

Before commencing my submission on the substantive issues an error in the *Issues Paper* must be addressed. At page 13, first sentence, last paragraph, is this statement:

A criticism of post-grant opposition is that it has the potential to weaken *the presumption of validity* for a granted patent. (emphasis added)

Under Australian patent law there is no presumption of validity, nor has there ever been. Under the received colonial laws that applied to the Australian colonies prior to Federation there was no presumption of validity and no post-Federation patent legislation has ever contained or created any such presumption.

In fact, s.20(1) *Patents Act, 1990* expressly provides to the contrary:

Nothing done under this Act or the PCT *guarantees* the granting of a patent, or *that a patent is valid*, in Australia or anywhere else. (emphasis added)

This policy behind this express disclaimer is sound, was part of the common law since before the *Statute of Monopolies, 1624* and has been part of the Australian statutory patent scheme since the *Patents Act, 1903*.

SUBMISSION

THE NATURE OF THE EXCLUSIVE RIGHT AND THE VALIDITY OF A PATENT

A patent is personal property (s.13(2) *Patents Act, 1990*) and may be dealt with by the owner like any other property (s.13(2)) except that an assignment of a patent must be in writing (s.14(1)). However, a patent is not tangible property. Rather, it is an instrument created by effect of the *Patents Act, 1990* which provides the owner with the *exclusive right* to exclude anyone in Australia from "exploiting the invention" that is defined in the patent claims (s.13(1)). The exclusive right is a statutory monopoly limited in time (20 years) and scope (the invention).

The exclusive right referred to in the *Patent Act, 1990* was originally a crown privilege exercisable at the will of the reigning monarch. In 1624 the Parliament of England passed the *Statute of Monopolies* and s.1 rendered void all monopolies except those which were excepted. One of the exceptions concerned monopolies created by effect of *letters patent* (open letters by the reigning monarch instructing the people as to his or her wishes) issued to the first and true inventor of a manner of new manufacture for a period of up to fourteen years and which were

"not contrary to the law nor mischievous to the state by raising prices of commodities at home, or hurt of trade, or generally inconvenient" (s.6, *Statute of Monopolies, 1624*).

By virtue of s.13(1) and the definition of "invention" in the Act (any manner of new manufacture the subject of letters patent and grant of privilege within section 6 of the Statute of Monopolies, and includes an alleged invention) the exclusive right is expressly limited to "an invention". Therefore, unless the patent concerns "an invention" the patent grant is *ultra vires* and the exclusive rights are void *ab initio*.

THE ROLE OF THE PATENT OFFICE IN GREAT BRITAIN BETWEEN 1852 AND 1977

Until 1852 there was no patent office in England nor in any part the Empire. Once established the Patent Office began to evolve. At first it was merely a receiving office for patent applications and provided some form of rudimentary administration, but did not examine the merits of a patent application other than to ensure that it complied with the formalities. In 1883 the role of the Patent Office was expanded and the office of the Comptroller of Patents was created, however, the Comptroller's examination of the patent application was limited to "whether the nature of the invention has been fairly described, and the application, specification and drawings have been prepared in the prescribed manner, and the title sufficiently indicates the subject matter of the patent" (s.6, *Patents, Designs and Trade Marks Act, 1883*). If the Comptroller was satisfied with the patent application, an advertisement of acceptance was published. Any person who took issue with the Comptroller could file an Opposition within two months (s.11) but on only three grounds: (a) lack of title as inventor; (b) the invention is subject to a prior granted patent in England; and (c) that "the specification appears to comprise the same invention" described in a previous patent application in England. In other words, novelty was not examined prior to grant unless an Opposition was filed.

However between 1883 and 1902 that changed and eventually the Comptroller of Patents (in 1902) was required to examine for novelty, although the Comptroller's search was limited to British complete specifications published within fifty years of the date of application.

In 1907 the *Patents & Designs Act* was passed replacing the previous legislation and consolidating the amendments made between 1883 and 1902. Under the 1907 legislation the examination role of the Comptroller was not substantially altered. Then in the *Patents Act, 1949* the Comptroller was required to search for additional published information directed to the claims (s.8). Under this requirement, the relevant literature was not limited to British patent applications but included "a convention application ... made in a convention country before that date". However, the grounds of Opposition were substantially altered and under s.14 they included (a) title to invention (b) novelty (c) claim anticipation (d) prior use of invention in Britain; (e) lack of inventive step (f) not an invention (g) not sufficient or fairly described and (h) not made within 12 months of a convention application. The words "and on no other grounds" limited the scope of the Opposition to those enumerated in s.14.

THE ROLE OF THE COURTS IN GREAT BRITAIN BETWEEN 1883 AND 1977

It is important to note at this juncture that an important change was made in the 1949 legislation to the scope of the inquiry which could be undertaken through the courts. From 1883 to 1949 the courts in the United Kingdom were able to revoke a patent by way of petition on the basis of the ancient writ of *scire facias*. However, in the 1949 legislation the grounds were enumerated in s.32 and although the words "and no other ground" were not included in s.32, the courts accepted that revocation was limited to those specified in s.32 and that any broader enquiry that may have been permitted under *scire facias* was no longer available (see *American Cyanamid Co v Upjohn Co* [1970] 3 All ER 785, HL).

THE RELATIONSHIP BETWEEN THE PATENT OFFICE AND THE COURTS IN GREAT BRITAIN BETWEEN 1852 AND 1977.

It is important to appreciate that they have always played different roles within the English patent system. At first the Patent Office had a very limited role in terms of pre-grant examination and although that role was expanded through the Opposition procedure, the courts were and have always been the principle authority that determines the validity of a granted patent. The Patent Office, even under the expanded Opposition in the 1949 legislation, was not permitted the same scope of inquiry as that permitted by the courts. This disparity in the scope of the inquiry implied that even if a patent application survived an Opposition there remained grounds that could be used to challenge the validity of the granted patent. Whatever the policy reasons for this disparity, it is clear that

no granted patent in the UK could be guaranteed validity on the basis that it had succeed through the Patent Office examination and Opposition processes.

It is also important to appreciate that even in an Opposition that the evidence put before the Patent Office was not subjected to the rigor of cross-examination conducted using the rules of evidence applicable in judicial proceedings.

This meant that apart from the scope of the enquiry permitted in examination and through the Opposition, the nature of the enquiry conducted in the Patent Office was itself quite different and critically, much less rigorous.

THE RELEVANCE OF THE UK PATENT LEGISLATION TO AUSTRALIA.

Apart from the common law received by the Australian colonies prior to Federation, the Australia colonial governments were able to grant patents and although the *Patents, Designs and Trade Marks Act, 1883* (UK) did not extend to the Australian colonies, the patent scheme that it described and which was amended through to 1902, formed the basis of the *Patents Act, 1903* (Cwth), Australia's first patent's legislation. Likewise, the Patents Act, 1952 (Cwth) essentially applied the scheme described in the *Patents Act, 1949* (UK). The similarities between the UK and Australian patent legislations were acknowledged by both the Knowles Committee (1935) and the Dean Committee (1950) which conducted enquiries into the Australian patent scheme. The Dean Committee suggested that there was a need not to "trouble" Australian and British inventors with "differing laws". (See Ricketson S., *The Future Role of Australian Intellectual Property Reform and Administration* (1992) AIPJ 3(1) 3-30, 12)

In 1977 the legislative synchronisation between the UK and Australia patent schemes came to an end when the UK passed the *Patents Act, 1977*. This legislation was necessitated by the UK's entry into the *European Economic Community* in 1973 and its accession to the *European Patent Convention* (EPC).

Australia eventually passed the *Patents Act, 1990*. The significance of this legislation in terms of the *Patents Act, 1952* was in the language that it used. The 'plain English' language that it employed removed what Barry Jones MP had said in 1989 were the "archaic words and hidden meanings" (*Hansard*, June 1, 1989, 3479). Importantly while it modernised the language, according to patent law commentators it did not detract from the "developed case law concerning the 'hidden meanings' of the 1952 law". (McKeough & Stewart, *Intellectual Property In Australia*, 2nd Ed., 1997, 324).

Neither did the *Patents Act, 1990* substantially alter the Australian patent scheme that operated under the *Patents Act, 1952*. This is not to suggest that some of the changes in the new legislation were insignificant or immaterial, but it does suggest that the scheme itself and the relationship between the Patent Office and the courts and the roles that they played within the scheme remained unchanged.

That was no longer the case under the *Patents Act 1977* (UK), which requires that the appellate decisions of the European Patent Office (EPO) must be given judicial weight (*Merrell Dow Pharmaceuticals Inc v H N Norton & Co Ltd* [1996] RPC 76, 82 HL). The new patent scheme which the UK adopted in 1977 directed a significant change in the relationship between the EPO and the courts which Lord Hoffmann described as necessary "because it would be highly undesirable for the provisions of the EPC to be construed differently in the EPO from the way they are interpreted in the national courts of a Contracting State".

THE IMPLICATIONS OF THE UK PATENTS ACT, 1977 FOR AUSTRALIAN PATENT LAW.

The change in the UK patent scheme has implications for Australia because until 1977 the two schemes were regarded as essentially the same. From 1977 that was no longer the case and one major change to the UK scheme introduced by the EPC and that distinguished it from the Australian scheme was the fusion of the roles played by the Patent Office regarding examination and pre-grant Opposition and the courts regarding revocation. While in the UK the courts were then obliged to take judicial notice of the EPO "expert courts (the Boards of Appeal and Enlarged Board of Appeal)" (per Lord Hoffmann in *Merrell Dow*) in revocation hearings, the Australian courts are not. To emphasis the distinction even further, under present Australian patent law and practice, appeals from the decision of the Patent Office are "de novo" i.e., new from the beginning.

What this means is that if the Australian Patent Office (IP Australia) grants an Australian patent not only is there no guarantee of its validity (s.20(1) *Patents Act, 1990*), but its enquiries and decisions regarding the grant of that patent are subject to the "de novo" and independent review of a court using the evidentiary rules and procedures available to a court.

THE ROLE OF THE COURTS IN THE AUSTRALIAN PATENT SCHEME.

While IP Australia's role in the Australian patent scheme is to examine patent applications, grant patents, administer the patent registry and regulate the practice and conduct of patent attorneys, it is the role of the Australian courts to independently ensure that the social contract between the patentee and the Australian people is fair and equitable and that the inventor's obligations have been discharged. The history of the Australian patent scheme outlined above has demonstrated that the 'exclusive rights' to "exploit" (s.13(1)) are inextricable from a patent because they are the *quid pro quo* provided by the Australian people to an inventor in return for publicly available information about that invention and how to make it. This information must be disclosed in that part of the patent known as the complete specification (s.40(2)(a)). The common law first recognised the importance of the social contract in *Liardet v Johnson* (1780) 62 ER 1000 where Lord Mansfield held,

The law relative to patents requires as a price the individual should pay the people for his monopoly, that he should enrol, to the very best of his knowledge and judgment, the fullest and most sufficient description of all the particulars on which the effect depended, that he was at the time able to do.

To be sure that under *the Patents Act, 1990* IP Australia is required to examine a patent application (s.45) and to ensure that: (a) the complete specification complies with s.40(2)(a); (b) the claims are clear and succinct and fairly based upon the specification (s.40(3)); (c) that the claims define an 'invention'; (d) that the 'invention' is novel and (e) that the 'invention' involves an inventive step. Accordingly, IP Australia is obliged to access the value of the 'invention' and decide, in the first instance, whether the conditions of the social contract have been satisfied. Now while this examination is far more extensive than that provided by earlier patent legislation, and perhaps implies that there can be a relaxation or lessening of the role of the Australian courts in providing an independent review, it is important to appreciate that in neither the examination (s.45) or Opposition (s.59) conducted by IP Australia is there any enquiry as to whether the patent application involves "fraud, false suggestion or misrepresentation". This enquiry is specifically reserved, as a ground of revocation, to the courts (s.138(3)(d) and (e).) Moreover this reservation implies that the courts have a separate and distinct role to that played by IP Australia. This is reinforced not only by the revocation role (s.138), which is in light of the examination parameters prescribed in s.45 a process of independent review, but by the exclusive appellate role of the Federal Court "against decisions or directions" of IP Australia (s.154).

Clearly, if a patent has been obtained by "fraud, false suggestion or misrepresentation" it means that not only has IP Australia as the granting authority been duped, but that so have the Australian people. While it may be argued that a patent application that succeeds through the examination and Opposition processes undertaken by IP Australia and that as granted is unlikely to be invalid, the fact remains that IP Australia is not, as the Parliament has foreseen, the appropriate arbiter of a fraud or deception practiced upon it. That is a matter for the courts and rightly so.

Furthermore, the level of scrutiny that IP Australia provides through the examination and Opposition processes is simply unable to be matched by the scrutiny provided by a court system that provides for rigorous cross examination. IP Australia does not have the resources either in the numbers of examiners or with regard to access to technical information beyond the published literature to be able to provide any guarantee that granted patents are valid or that they should warrant a presumption of validity.

More to the point, IP Australia is a bureaucratic organisation that is not independent of government nor the policies of government. Therefore, unlike the courts, it is unable to legally detach itself and its decisions from the influence of its political masters, to whom it and its officers are ultimately accountable to through the employment structure of the Australian public service. Given that it is today part of an international network of patent offices which through the operations of foreign or investment and employment policies of their national governments are connected it is imperative to the integrity and functioning of the Australian patent system that their decisions be subjected to independent review.

Put simply, the courts play an important role that guarantees that the patent scheme is fair and equitable to the Australian people and despite the substantial costs to the parties, whether as patentees in an enforcement action or as challengers in a revocation action, to water down this important check and balance in the patent system on the ground of costs and inconvenience to patentees is unwarranted.

ENFORCEMENT OF AUSTRALIAN PATENTS.

Given that no patent issues with any guarantee of validity and that there is no presumption of validity in law it is inappropriate for patent enforcement to be available as an administrative remedy or that patent infringement be the subject of criminal sanctions. Despite the substantial legal costs associated with current court practice, the present system is more than fair to the patentee. Apart from the fact that a patentee has the right to seek damages, an account of profits and injunctions, both interlocutory and permanent, a patentee enjoys the economic benefits of a statutory monopoly with respect to the patented invention without suffering any penalty, either civil or criminal, if it turns out that the granted patent is invalid.

This advantage in the market place can be substantial and the fact that large multinational corporations are prepared to spend millions of dollars prosecuting their patents or challenging their opposition's patents through the courts is conclusive evidence that the economic advantage provided by a granted patent is real and significant.

Unfortunately, because today many of the inventions that are subject of patents are the product of high levels of specialised science or engineering, the costs of proving infringement or challenging validity necessarily involve evidence from expert witnesses. Moreover, they require the attention of lawyers that are not only experts in patent law, but that are able to familiarise themselves with leading-edge technologies. This educational process is not only costly, but necessary because without a knowledge of the technology it is impossible for the lawyers to properly represent their clients nor to comply with their duties to the court. Likewise, judges that usually hear patent cases have come from that section of the legal profession that specialises in patent law and litigation.

The suggestion at page 4 of the Issues Paper that an *effective* patent enforcement system is one that is "speedy and inexpensive" makes assumptions about both the nature of patents rights, which as explained are not infallible, and ignores the importance that rigorous and independent scrutiny plays in a fair and balanced patent system. Unfortunately, rigorous scrutiny can only be achieved through time and money. There is a real danger that a patent system that is supposedly "speedy and efficient" will increase the cost to the Australian people of commodities and services by introducing or encouraging monopolistic distortions in the economy created by the grant and enforcement of undeserving patents.

ALTERNATIVES MEASURES.

Each of the examples given in the Issues Paper such as Post-Grant Opposition; Validity and Infringement Service; Patent Tribunal simply cannot remove the need for an independent court nor should they be permitted to water-down the role played by courts. The reality is that none of these, either as supplementary or alternatives to the courts, will necessarily improve the present system in terms of *efficiency*, but they may very well lead to situations which are unfair not only to those that use their services but to the economy itself.

With regard to the Post-Grant Opposition and the Validity and Infringement Service not only are they not independent of IP Australia, raising the same issues regarding the availability of skilled examiners and access to relevant technical information as applies to the present pre-grant examination and Opposition processes but they involve a lack of rigorous testing or examination. An added danger is that that in each example the improved efficiency of the system is dependant upon there also being a guarantee or presumption of validity. This development would be a significant departure from the present scheme which provides neither and it is difficult to see how such a departure would radically improve the efficiency of the present scheme. In the US for instance, presumptions of validity accompany a granted patent, but patent litigation is just as expensive and time consuming (if not more so) than in countries where no such presumption applies.

With regard to a Patent Tribunal it is difficult to foresee how such a Tribunal could adjudicate on the competing claims of patentees and patent challengers with anymore efficiency than do the present courts given the need for rigorous testing of evidence, the technical complexities of many modern inventions and the capacity of those appointed to these Tribunals to be anymore informed about either the law or the technology than judges of the present courts. Frankly, all that this measure would achieve is another layer to the present system.

CRIMINAL SANCTIONS.

Give that no Australian patent is guaranteed validity on grant, the idea that an infringer should be subject to criminal sanctions, as well as civil penalties, is absurd. Apart from issues concerning the burden of proof to be applied in criminal cases, a prosecution by the DPP would involve establishing not only every element of the

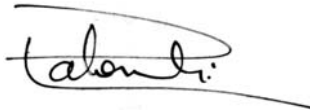
charge, but that of infringement itself. Given the complexities of modern technologies this could create the potential for enormous injustices, especially when one considers that the patent, upon which the charge of infringement is based, could well be invalid. What happens to someone who is convicted of patent infringement and given a custodial sentence when it subsequently transpires that the patent is and was at all material times invalid? How is someone charged with patent infringement to defend the charge and what will his/her burden of proof be? Will the convicted infringer, who has presumably earned income from the infringement also face the possibility of having their assets seized or confiscated?

CONCLUSIONS

The premise upon which ACIP has been called upon to conduct this Inquiry is questionable. The implication that the Issues Paper carries, that the present enforcement system is inefficient and unnecessarily expensive misunderstands the purpose and function of the patent system as it has developed historically.

The courts have played a very important role in ensuring that integrity of the patent system and they should continue in that role exclusively.

Yours truly,

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

Luigi Palombi LL.B, B.Ec (Adel), Ph.D (UNSW)
Visiting Fellow, CGKD, RSSS, ANU.