



Australian Government

Advisory Council on Intellectual Property

Post-Grant Patent Enforcement Strategies

Interim Report

August 2009

Contact details:

Jacqueline Carroll

Secretariat

Advisory Council on Intellectual Property

PO Box 200

WODEN ACT 2606

Email: jacqueline.carroll@ipaustralia.gov.au

Telephone: 02 6283 2152

This paper is also available at: www.acip.gov.au

Please note: unless requested otherwise, written comments submitted to ACIP will be made publicly available.

**Comments should be received no later than
Wednesday 30 September 2009**

TABLE OF CONTENTS

| | |
|--|-----------|
| 1. GLOSSARY OF TERMS | II |
| 2. TERMS OF REFERENCE | 1 |
| 3. LIST OF PROPOSALS | 2 |
| 4. SUBMISSIONS TO THIS PAPER | 5 |
| 5. BACKGROUND | 6 |
| 5.1. ACIP | 6 |
| 5.2. Review background..... | 6 |
| 5.3. Review process..... | 6 |
| 6. THE AUSTRALIAN PATENT SYSTEM | 7 |
| 6.1. Rationale for the patent system..... | 7 |
| 6.2. Life cycle of an Australian patent..... | 7 |
| 6.3. Previous and related reviews..... | 9 |
| 6.4. International treaty obligations | 12 |
| 7. ENFORCEMENT OF PATENTS IN OTHER COUNTRIES | 14 |
| 7.1. Opposition..... | 14 |
| 7.2. Litigation..... | 15 |
| 7.3. Alternatives to litigation | 18 |
| 8. ENFORCEMENT OF PATENTS | 20 |
| 8.1. Issues | 20 |
| 8.2. Effect of previous and related reviews | 27 |
| 9. MECHANISMS FOR IMPROVING POST-GRANT ENFORCEMENT | 28 |
| 9.1. IP dispute resolution centre..... | 29 |
| 9.2. Patent enforcement in other countries | 46 |
| 9.3. Alternative and additional strategies..... | 50 |
| Appendix A – List of submissions | A |

1. Glossary of Terms

| | |
|---------|---|
| AAT | Administrative Appeals Tribunal |
| ACIP | Advisory Council on Intellectual Property |
| ADR | Alternative Dispute Resolution |
| ALRC | Australian Law Reform Commission |
| AMPICTA | Australian Manufacturers’ Patents, Industrial Designs, Copyright and Trade Mark Association |
| APEC | Asia-Pacific Economic Cooperation |
| ASEAN | Association of Southeast Asian Nations |
| AUSFTA | Australia – United States Free Trade Agreement |
| CEDR | United Kingdom Centre for Effective Dispute Resolution |
| CSIRO | Commonwealth Scientific and Industrial Research Organization |
| EPO | European Patent Office |
| FICPI | International Federation of Intellectual Property Attorneys |
| FTA | Free Trade Agreement |
| IP | Intellectual Property |
| IPAC | The United Kingdom’s Intellectual Property Advisory Committee |
| IPC | Intellectual Property Committee of the Law Council of Australia |
| IPCRC | Intellectual Property and Competition Review Committee |
| IPRIA | Intellectual Property Research Institute of Australia |
| IPRs | Intellectual Property rights |
| IPTA | The Institute of Patent and Trade Mark Attorneys of Australia |
| KIPO | Korean Intellectual Property Office |
| LCA | Law Council of Australia |
| NIS | National Innovation System |
| OECD | Organisation for Economic Co-operation and Development |
| PCC | The United Kingdom Patents County Court |
| PCT | Patent Cooperation Treaty |
| QC | Queen’s Counsel |
| SME | Small to Medium Enterprise |
| TRIPS | Trade-Related Aspects of Intellectual Property |
| UDRP | Uniform Domain Name Dispute Resolution Policy |
| UK | United Kingdom |
| UKIPO | United Kingdom Intellectual Property Office |
| USA, US | United States of America |
| WIPO | World Intellectual Property Organization |
| WTO | World Trade Organization |

2. Terms of Reference

The enforcement of patents can be perceived as a time consuming, expensive, and complicated process. If enforcement difficulties are causing sub-optimal use of patents by users of the patent system this may adversely affect both the innovation system and the Australian economy. In early 2006, in order to address risks associated with such outcomes, the Australian Government responded to the concerns raised in this area and requested that ACIP:

Inquire and report on issues relating to post-grant patent enforcement strategies to benefit the Australian economy by assisting patentees to effectively enforce their patent rights.

3. List of Proposals

Proposal 1:

That IP Australia establish an IP dispute resolution centre along the lines of WIPO's Arbitration and Mediation Center, which in the first instance focuses on patent disputes. Funding for the centre should be on a "user pays" basis.

Proposal 2:

That IP Australia establish a validity and infringement opinion service (taking into account the needs of SMEs), along similar lines to that provided by the UKIPO, and incorporated within the IP dispute resolution centre.

Proposal 3:

That IP Australia:

- (a) establish a register of experts that could be drawn upon for non-binding expert assessment and for mediation; and
- (b) provide support for expert assessment and mediation services;

these functions to be coordinated within the IP dispute resolution centre.

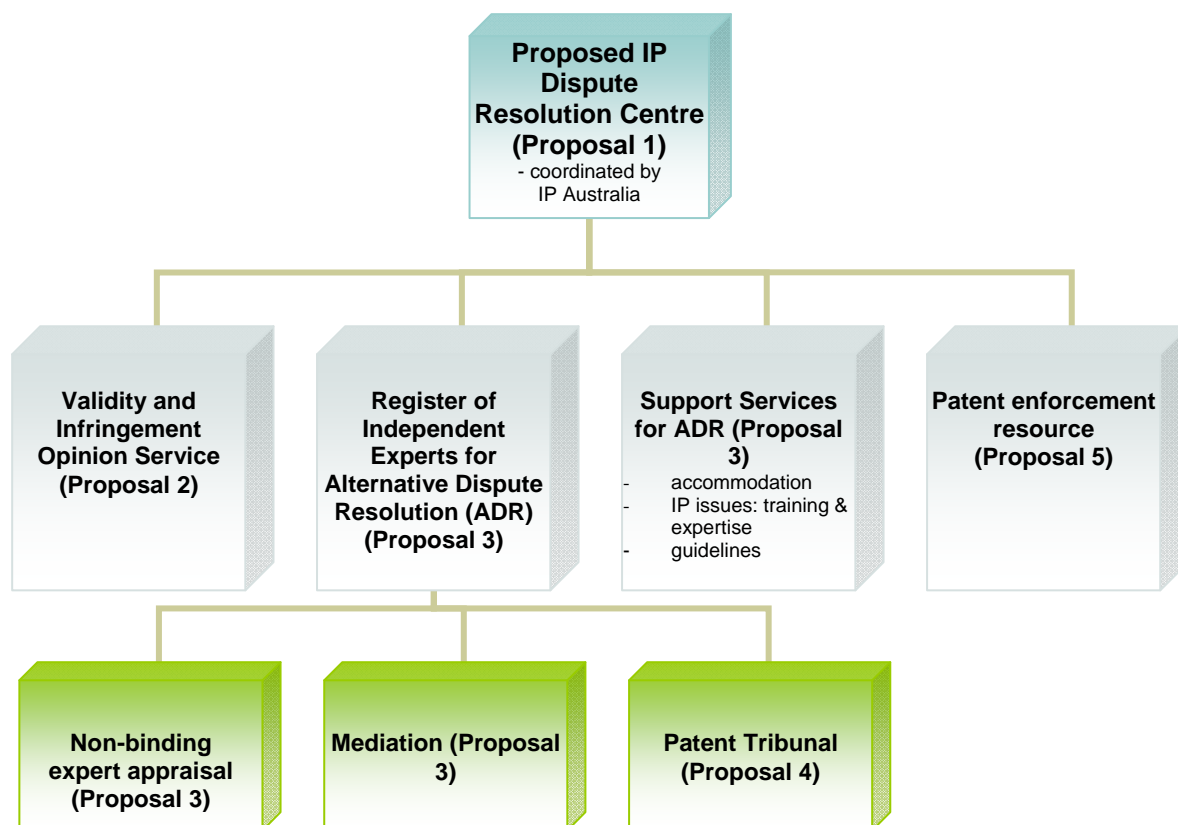
Proposal 4:

That IP Australia establish, within the IP dispute resolution centre, a determinative ADR process in the form of a Patent Tribunal along the following lines:

- (a) each Tribunal hearing panel to comprise up to 3 people, integrating legal and technical expertise;
- (b) Tribunal hearing panel members to be drawn from the register of experts established under Proposal 3;
- (c) patent attorneys to have a right to appear;
- (d) the Tribunal to have more streamlined procedures and simplified evidentiary requirements;
- (e) the Tribunal to take a pro-active and inquisitorial role;
- (f) mechanisms be introduced to encourage parties to comply with the Tribunal's determinations, and to discourage parties from using the courts instead of the Tribunal where it would be appropriate to do so; and
- (g) that the effectiveness of the Patent Tribunal be monitored from its date of establishment.

Proposal 5:

That IP Australia establish a resource which provides information about patent enforcement.



Proposal 6:

That

(a) the Patents Act 1990 (Cth), and the rules of courts exercising jurisdiction under the Patents Act, be amended to ensure that the Commissioner of Patents is provided with information about the existence and the outcome of all court actions in respect of a patent; and

(b) IP Australia provide public access to the information so provided to the Commissioner of Patents, either through or in association with its online searchable databases of patent information.

Proposal 7:

That IP Australia continue to encourage and assist countries in the region to improve their patent enforcement systems.

Proposal 8:

That IP Australia expand its advocacy program to other countries in the region in which Australian companies do business.

Proposal 9:

That the jurisdiction of the lower tier of the Federal Court be expressly stated to include patent matters.

Proposal 10:

That legislation be introduced to empower Australian Customs officials to seize goods at the border where the rights holder has forewarned them of a shipment of infringing product.

Proposal 11:

That IP Australia continue to monitor and review the opposition processes both locally and abroad to identify whether there is any convincing reason for change from the pre-grant opposition process.

4. Submissions to this Paper

This paper outlines a number of proposals to address the enforcement concerns of patent rights holders. It reflects ACIP's current views. ACIP seeks further submissions on these proposals and any other suggestions that may be relevant to the terms of reference of this enquiry. ACIP encourages those making submissions to provide evidence to back up their arguments wherever possible.

Unless marked confidential, all submissions will be made public and may be placed on the ACIP website at (<http://www.acip.gov.au>). The Council's preference is for submissions to be made public; confidentiality should only be reserved for material which would be genuinely prejudicial to the party making the submission if disclosed.

Written submissions may be made in electronic form or in hard copy and should be provided to the address below by Wednesday 30 September 2009.

Jacqueline Carroll
ACIP Secretariat
PO Box 200
WODEN ACT 2606
Telephone: (02) 6283 2152
email: jacqueline.carroll@ipaaustralia.gov.au

After consideration of the submissions ACIP expects to submit a final Report to the Government in late 2009.

5. Background

5.1. ACIP

The Advisory Council on Intellectual Property (ACIP) is an independent body appointed by the government that advises the Federal Minister for Innovation, Industry, Science and Research on intellectual property matters and the strategic administration of IP Australia. The Council has been requested to take a broad strategic view of the role of intellectual property and its contribution to the development of Australian industry. Members of the Council are drawn from business and manufacturing sectors, the patent attorney and legal professions, the tertiary and research sectors, and technology and commercialisation groups. IP Australia is the federal agency responsible for administering the patent, trade mark, design and plant breeder's right systems.

5.2. Review background

Over recent years there have been repeated calls from patent owners in Australia concerning the difficulties associated with enforcing their patent rights after they have been granted.

It has been argued by patent owners that these difficulties can affect how successful they are in making money from their innovation, effectively devaluing their patent rights. It has also been argued that the difficulties faced by each affected business could, when taken in aggregate, have a negative influence on the nation's economic growth. In addition, if owners of patents cannot enforce their rights in a timely and cost efficient manner, then public confidence in the patent system could be significantly diminished. It is for these reasons that patent owners have been calling for more robust enforcement strategies and systems.

5.3. Review process

As part of its inquiry process, ACIP published an Issues Paper in November 2006 which was circulated to interest groups in order to gather evidence, identify stakeholder needs and to stimulate public discussion on patent enforcement issues. Invitations to the public to provide submissions were also published in most major Australian newspapers¹ on Saturday 29th July 2006 and on the ACIP website.

A number of written submissions were made in response to the Issues Paper and ACIP held a series of consultations with interested parties in Canberra, Melbourne and Sydney. The aims of the consultations were to identify and understand the current and emerging issues relating to patent enforcement in Australia and to obtain views on possible strategies to alleviate the problems. In all, sixteen separate stakeholders were consulted, including representatives from businesses which own patents (ranging from small businesses to large multi-national firms), the legal and attorney professions and other interest groups. A list of those who made submissions and participated in consultations with ACIP is at Appendix A. In addition to consultations with the public, ACIP also met with representatives from IP Australia, including the Commissioner of Patents.

¹ The Australian, The Canberra Times, The Sydney Morning Herald, The Age, The Brisbane Courier Mail, The Northern Territory News, The West Australian, The Hobart Mercury, The Adelaide Advertiser (all on Saturday 29th July) and the Australian Financial Review (Friday 28th July).

As a result of the submissions, consultations and its own deliberations, ACIP has generated a number of proposals relating to post-grant patent enforcement. These are outlined in this interim report, and reflect ACIP's current views. The purpose of this interim report is to seek further submissions on these proposals. Once the submissions have been received and considered, ACIP will finalise its report.

6. The Australian patent system

6.1. *Rationale for the patent system*

An Australian patent gives the patent owner the exclusive right, during the term of the patent, to exploit the patented invention in Australia, including the right to make, hire, sell, use or import the invention, and/or authorise another person to do so.

One of the primary purposes of the patent system is to provide incentives to the inventor in return for disclosure of the innovation. The result is a searchable database of up to date technology and historical information. Such a resource enables others, including competitors, to research from and build on existing knowledge. Without a patent system, third parties might copy the goods produced, reducing the incentive to create further intellectual property. Alternatively, information would not be so readily shared, many inventions would remain 'secret', and competition would be hampered.

When the patent system works to its optimum, it maximises the difference between the social value of IP created and used, and the social cost of its creation, including the cost of administering the system².

6.2. *Life cycle of an Australian patent*

In Australia, a standard patent lasts for up to 20 years, with a further five year extension possible for pharmaceuticals. Annual renewal fees are payable from the fifth year. An innovation patent may last for up to eight years, with annual renewal fees payable from the second year.

6.2.1. Pre-grant

6.2.1.1. Applying for a patent

Applications for patents must be filed with the Patent Office, which forms part of IP Australia. The application must fully describe the invention, and state the scope of the desired patent rights. This involves a description of the invention in sufficient detail that a person familiar with the technology ('skilled in the art') could perform the invention without undue experimentation. The description must include the best method known to the applicant for performing the invention.

A patent application may be lodged in a variety of ways, depending on the type of patent sought, and whether the applicant chooses to take the international or national route. IP Australia (which includes the Australian Patent Office) is the federal agency responsible for administering the patent, trade mark, design and plant breeder's right systems within Australia. Further information about the different types of patents and

² Intellectual Property and Competition Review Committee, "Review of intellectual property legislation under the Competition Principles Agreement", September 2000, p22.

ways to apply for a patent is available on IP Australia's website at <http://www.ipaustralia.gov.au>.

6.2.1.2. Examination

All examinations and sealing of patents are undertaken by IP Australia according to the requirements of the *Patents Act 1990*.

Under current Australian patent law, a patent may be granted on a new, non-obvious and useful invention, including improved products and processes. The area of exclusivity ('scope') of the patent is defined by the claims of the specification. To be patentable, the claims must satisfy threshold tests required by the Act.

The examination process usually begins one to two years after the application has been lodged, and there are opportunities to make changes to the patent application during examination. It may take up to 21 months from commencement of examination to acceptance.

6.2.1.3. Opposition

Once a standard patent application has been accepted, but before it is granted, opponents have a 3 month window to lodge a challenge to its validity with IP Australia, using the pre-grant opposition process. If a challenge is lodged, the patent cannot be granted until the opposition process is complete. The practice of IP Australia is to issue a decision that determines the opposition, and, if any grounds of objection are made out, to allow the patent applicant to amend the patent application to overcome those objections. The opponent is then given an opportunity to be heard as to whether the patent as amended should be granted, and a second, or final, decision on that question is issued. Such a decision may also be appealed to the Federal Court³. This process may take a considerable amount of time.

There is a concern that the opposition process is sometimes misused by a patent applicant's competitors simply to delay the grant of a valid patent.

6.2.2. Post-grant

The grant of the patent identifies the scope and detail of the patentee's exclusive right, but affords no intrinsic protection for the patent or the patentee. It is the patentee's responsibility to maintain and enforce their right. The benefits of this exclusive right can be threatened by overt or covert copying, unauthorised exploitation, and with formal legal challenge to the scope or validity of the patent. The patent remains open to such formal and informal challenge for the whole of its life (up to 20 years). After this time the exclusive right of the patentee ceases and the invention becomes public property for general use and exploitation.

6.2.2.1. Re-examination

Re-examination of a patent is generally only available after the grant of a patent, although it may be initiated by the Commissioner of Patents at any time after acceptance but before grant, and the Commissioner may refuse to grant the patent if the re-examination leads to an adverse report. Re-examination is limited to the

³ Hamer and Gottschall, "A question of timing", *Managing Intellectual Property*, No.126, February 2003, pp 60-62.

question of whether the claimed invention is novel or involves an inventive step, and is based only on publicly available documents and common general knowledge⁴.

6.2.2.2. Infringement

Under the *Patents Act 1990*, a patent will be infringed whenever a person, acting without the patent owner's authorisation, does something in relation to the invention which falls within the scope of the patent owner's exclusive rights. These rights extend throughout Australia (section 13 (3)) and may be infringed by any conduct after the date of the publication of the complete specification. Proceedings may only be instituted after the patent has actually been granted (section 57 (3)). The act of infringement does not require knowledge, which means that ignorance is not a defence to patent infringement; however, it may have some bearing upon the range of remedies available to the plaintiff.

6.2.2.3. Post-grant enforcement

For the purposes of this paper, the enforcement of a patent occurs when the patent owner takes action to compel others to respect the patent right, or responds to the actions of an opponent who is challenging the validity or scope of the patent right.

The current review is primarily concerned with this post-grant period, but the effectiveness of post-grant enforcement of a patent will also be affected by steps that have occurred earlier in the process, including the drafting of the specification and claims, the examination process, and the opposition process.

6.2.2.3.1. Litigation

Once a patent has been granted, the ultimate venue for enforcing the patentee's exclusive right is the court— either a state Supreme Court or the Federal Court, with appeal to the full court of the Federal Court and potentially the High Court.

6.2.2.3.2. Alternatives to litigation

There are a number of legal, administrative and commercial steps which can be used to enforce or defend patents or to test their validity. These steps can be taken prior to the litigation process, and may sometimes be successful in avoiding that process altogether. For example, a patent holder may notify a potential infringer of the existence of a patent and indicate that the use of the invention claimed in the patent should be terminated. This is often referred to as a 'cease and desist' letter. Another example is where a patent owner notifies a potential infringer of the existence of a patent and requests that activities covered by the patent claims be conducted only pursuant to a licence. This is commonly termed 'offer to licence'. If these approaches are not successful a patent owner could consider alternate dispute resolution mechanisms, such as mediation. Nevertheless, a proportion of cases in Australia will still end up in the courts.

6.3. Previous and related reviews

There have been a number of reports to government in previous years relating to the enforcement of patent rights in Australia. A summary of the most relevant ones follows:

⁴ Philip Spann, "Re-examination in Australia: 10 years on", *Australian Intellectual Property Journal*, Vol. 13 No. 2, May 2002, pp97-101.

6.3.1. Practice and Procedures for enforcement of industrial property rights in Australia (Industrial Property Advisory Committee), March 1992

This review Committee was chaired by Professor J.C. Lahore, with members representing the patent attorney profession, business and academia.

The Minister for Science asked the Committee “to consider and report whether the practice and procedures for enforcement of industrial property rights in Australia can be improved with regard to ease cost and timeliness for Australian industry”. The Minister asked the Committee to consider:

- the objectives and scope of industrial property rights;
- alternative forums for the settling of disputes;
- the appropriateness of the structure for professional advisers within the area; and
- the question of limited financial jurisdiction for infringement actions.

The Committee sought submissions and consulted with stakeholders. The majority of submissions originated from practitioners in the IP area, with very few by users of the system. Only a small number of critical submissions were received, and the statistical and other evidence indicated mixed experiences. The Committee noted concerns that there could be “premature meddling” with the legal system on the basis of difficult cases. However, it concluded that even if problems were confined to a minority of patent and trade mark cases, they still needed to be taken seriously because:

- there is a public interest in the full exploitation of the benefits accessible through the IP system;
- there are social costs imposed on the civil justice system by inefficient handling of IP disputes;
- the interests of small litigants should be protected; and
- statistics show that the number of IP cases is increasing.

The report recommended inter alia that:

- the courts to adopt a more managerial (or interventionist) approach to the resolution of IP disputes;
- judges with experience and knowledge in IP be used for both trials and appeals;
- the court adopt rules to facilitate identification of issues at an early stage of proceedings;
- in some cases the rules of evidence should not apply;
- the courts’ cost scales reflect realistic levels of costs properly incurred; and
- there be cost penalties for conduct which unreasonably delays the resolution of proceedings.

The report also urged the courts to encourage the use of alternative dispute resolution mechanisms; and promoted a greater role for patent attorneys in the court process (i.e. patent attorneys appearing before the AAT; instructing counsel directly on IP matters; being able to practise in partnership with other legal professionals).

The Government did not respond to this report.

6.3.2. Review of the Enforcement of Industrial Property Rights (patent enforcement) March 1999

This review was undertaken by the Advisory Council on Industrial Property, in response to a request from the Minister for Science and Technology to examine issues relating to the enforcement of IP rights.

The ACIP working party collected data from a number of sources, including the Federal Court of Australia, the state and territory Supreme Courts, and IP Australia. It also used information from recent reviews and surveys. It also carried out its own selective survey of patent attorney and legal firms. The data showed an increasing number of enforcement cases being filed in the Australian courts, although the number of cases as a proportion of granted rights remained constant. The survey responses suggested that the courts decide less than 10% of cases filed and many enforcement actions do not involve litigation. The working party noted however that a low level of litigation is not necessarily a measure of satisfaction with the system.

The review concluded that the major concern was substantial uncertainty regarding the outcomes of enforcement action, and recommended a number of measures to address these problems, including:

- various awareness/education programs;
- promoting the specialisation of IP judges;
- including provisions for exemplary damages; and
- infringing patent material to be subject to indemnity & seizure provisions (accepted by the Government, but not implemented).

Many of these recommendations were subsequently accepted and implemented by the Government.

6.3.3. Review of intellectual property legislation under the Competition Principles Agreement, September 2000

This Review Committee comprised Mr Henry Ergas (chair), Associate Professor Jill McKeough and Mr John Stonier. The Committee was asked to report to the Attorney-General and the Minister for Industry, Science and Resources, on the interaction and appropriate balance between competition policy and intellectual property legislation.

The review recommended a number of changes to the Patents Act; the most notable one in relation to patent enforcement was that the Federal Magistrates Court be used as a lower court for the patent system. The Government deferred its response to this recommendation at the time.

6.3.4. Consideration of extending the jurisdiction of the Federal Magistrates Service to patent, trade marks and designs matters, November 2003

This review was undertaken by the Advisory Council on Intellectual Property, in response to a request from the Parliamentary Secretary⁵ to consider and report on

⁵ The Hon Warren Entsch MP, Parliamentary Secretary for Industry, Tourism and Resources.

whether any practices and procedures relating to the enforcement of patents, trade marks and designs in Australia could be appropriately referred to the Federal Magistrates Service.

The review working party circulated an issues paper and sought submissions. It also held a series of consultations with interested parties including the Institute of Patent and Trade Mark Attorneys, the Law Council of Australia, the Federal Court of Australia and the Federal Magistrates Service.

An issue that was raised frequently in submissions to the review was the perceived lack of scientific and technical knowledge and expertise in the judiciary and legal representatives of parties; and the fact that cases are often considered to be complex merely because of the technical nature of the matters to be considered:

ACIP recommended extending the jurisdiction of the Federal Magistrates Court to include patents, trade marks and designs. ACIP's rationale in relation to patents was that the Federal Magistrates Court could prove to be a less intimidating and less expensive prospect for many IP rights owners, thus providing an alternate avenue to those who would not have pursued a claim through existing court processes. It was ACIP's view that the market place should decide the most appropriate court in which to commence an action, rather than having elements of jurisdiction artificially granted to the Federal Magistrates Court.

The Government decided not to implement ACIP's recommendation in relation to patents at that time, noting that patent cases are generally longer in duration than trade mark and design cases, and that the Federal Magistrates Court was intended to be a high volume jurisdiction established to deal with simpler and shorter cases. Instead, it recommended that further consideration be given to this option after the Court had gained experience with trade marks and designs cases.

6.4. *International treaty obligations*

6.4.1. *Multilateral treaties*

Australia is a signatory to a number of international treaties on patents and any developments on post-grant patent enforcement strategies therefore have to be consistent with them. The major treaties are:

- World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
- Paris Convention for the Protection of Industrial Property
- Patent Cooperation Treaty (PCT)
- Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure
- Strasbourg Agreement Concerning the International Patent Classification
- Patent Law Treaty

Of these, compliance with TRIPS is likely to have the most significant effects on post-grant patent enforcement strategies. The TRIPS Agreement, which forms part of the overall Agreement establishing the World Trade Organization (WTO), attempts to narrow the gaps in the way IP rights are protected around the world, and to bring them

under common international rules. This agreement mandates that member states must establish minimum standards of intellectual property protection.

TRIPS requires member states of the WTO to ensure that effective enforcement procedures are available for intellectual property rights including patents. Article 41(1) of the TRIPS Agreement sets out general principles on enforcement which include:

- implementation of effective enforcement strategies;
- expeditious remedies to prevent infringement; and
- effective deterrents to further infringement.

Article 41 (2) requires that any enforcement procedures are:

- fair and equitable;
- not unnecessarily complicated or costly; and
- not unreasonable in terms of time limits or unwarranted delays.

Articles 41(3) and (4) require that parties to the Agreement have decisions concerning enforcement made on the merits of the case, without undue delay, and that parties to the proceedings will have an opportunity for a review by a judicial authority of final administrative decisions.

When developing possible post-grant patent enforcement strategies, it is important to take account of all the relevant TRIPS Agreement provisions including those contained in Part III of the Agreement (Articles 41 to 61) and Article 62.4. These articles cover minimum requirements of member states on areas such as fair and equitable procedures, evidence, injunctions, rights to information, damages, awards of cost for abuse of judicial process, fair administrative procedures, border measures and criminal procedures.

6.4.2. Free Trade Agreements

The Australian Government supports the negotiation of comprehensive Free Trade Agreements (FTAs) that are consistent with the World Trade Organization rules and guidelines and which complement and reinforce the multilateral trading system.

Free trade agreements (FTAs) promote stronger trade and commercial ties between participating countries, and open up opportunities for Australian exporters and investors to expand their business into key markets. One of the key areas considered when developing a FTA with another country is that of intellectual property rights.

Existing FTAs include:

- The Singapore - Australia Free Trade Agreement
- The Thailand - Australia Free Trade Agreement
- The Australia - United States Free Trade Agreement
- The Australia – Chile Free Trade Agreement

The main bilateral agreements which need to be considered when developing possible post-grant patent enforcement strategies are the Australia – United States Free Trade Agreement (AUSFTA), and any other agreements which use the same broad template (the Australia - Chile Free Trade Agreement falls into this category). The relevant

area of the AUSFTA is Article 17.11.1 to 18. These provisions seek to harmonise civil and administrative procedures for the enforcement of intellectual property rights, and are considered to be “TRIPS plus” (in other words, they are consistent with the TRIPS provisions, as well as containing additional provisions).

It should be noted however that the landscape is constantly shifting. Existing FTAs are open to change, and are regularly reviewed. In addition, the situation could change due to future agreements with other countries. For example, the Government is currently pursuing a number of regional trade initiatives with Japan, China, India, Malaysia, the Gulf Cooperation Council and has concluded negotiations on an FTA with ASEAN and New Zealand and an FTA with Chile.

7. Enforcement of patents in other countries

There are a number of similarities between the operation of Australia’s patent system, and those in other countries. For example, all countries with a patent system grant an exclusive right over a period of time, and patent rights are usually enforced in the courts. As already mentioned in Section 6.4, a number of international treaties and agreements bind countries to certain criteria for the protection of intellectual property.

Nevertheless, there are also significant differences among countries in the way their patent systems operate, and in how patents are enforced. Australian patent owners need to ensure that they consider these differences when deciding whether to conduct business in another country. Some of the differences are outlined further in this section, but it is not an exhaustive list. Any patent owner considering marketing their invention in another country should first seek professional advice about that country’s intellectual property regime.

7.1. Opposition

Most OECD countries employ a post-grant opposition system⁶, although the United States does not have an opposition procedure as such. Australia’s patent opposition process occurs after acceptance, but prior to the sealing of the patent. The standard international practice of post-grant patent opposition could be cited as an incentive for Australia to follow suit in the interest of harmonization. The current use of the pre-grant opposition system in Australia as a percentage of patents accepted is around 1.3% (over the last 5 years)⁷. This is quite small, especially compared to the European Patent Office (EPO) experience of 5.4% of all granted patents being opposed in their post-grant system⁸. However, this data does not give any indication of the effectiveness of either approach. ACIP believes that on the basis of the little hard evidence available to date, there is insufficient justification for Australia to change to a post-grant system.

⁶ Whilst most OECD countries have what can be described as post-grant system of opposition the form of such systems are not necessarily similar to each other.

⁷ Patent and Examination Hearings Group, IP Australia, 2006.

⁸ http://annual-report.european-patent-office.org/2005/business_report/patent_process/index.en.php

7.2. Litigation

7.2.1. Specialised court

A number of jurisdictions, including England, France, Germany and Holland, provide specialised courts to hear IP matters. The US has a specialised court for matters on appeal.⁹

More countries are beginning to move in this direction:

- In March 2008, the Federal Tribunal of Fiscal and Administrative Justice of Mexico decided to establish a specialized IP body within the Tribunal¹⁰;
- In June 2008, the Chinese government announced that it will conduct studies to determine whether to create specialised IP courts¹¹; and
- Japan has pulled away from opposition practice in favour of a vastly strengthened, specialized patent trial court system¹².
- The following paragraphs provide more detailed information about the specialised IP courts operating in Germany and the UK:

7.2.1.1. Germany

The Federal Patent Court in Munich¹³ does not deal with infringement. It hears appeals against decisions of the German Patent and Trade Marks office, as well as patent validity cases. Cases are heard by a bench of 3-5 judges, including judges with a scientific or technical background (the technical expertise of the judge will correspond to the technology of the patent being considered). Experts can be called by the judges, or by request of the parties. The expert is an adviser to the court, and is expected to be free of bias and as impartial as the judge. As a rule there is only one expert.

7.2.1.2. The UK

The UK Patents County Court (PCC) is an alternative venue to the Patents Court of the High Court for bringing legal cases involving certain matters concerning patents, registered designs and, more recently, trade marks, including Community trade marks and designs.

The PCC was established in 1990, as a forum where simpler cases could be dealt with under a cheaper and more streamlined procedure than the High Court. Under the guidance of Justice Michael Fysh (since 2001), the court continues to encourage innovative means of reducing costs and time delays. Further information about how the PCC works is available in a paper written by Justice Fysh in February 2003¹⁴. It should be noted that at present the workload of the PCC is not sufficient to occupy a full-time judge (Justice Fysh also sits on the High Court). The PCC encourages solicitors and patent agents to appear in person, rather than appointing a barrister.

⁹ Intellectual Property Advisory Committee (IPAC), *The Enforcement of Patent Rights*, November 2003, UK. The report contains a table comparing patent enforcement systems in the UK, France, Germany, Holland and the USA see pp 49-51.

¹⁰ http://www.wipo.int/enforcement/en/news/2008/enforcement_01_08.html.

¹¹ http://www.wipo.int/enforcement/en/news/2008/enforcement_01_08.html.

¹² K.R. Adamo, "If it ain't broke...", *Patent World Issue #203*, June 2008, p.50.

¹³ Prof Dr J. Bornkamm, Judge at the Federal Supreme Court, Karlsruhe, "Intellectual Property Litigation under the Civil Law legal system; experience in Germany", WIPO Advisory Committee on Enforcement, Second Session, Geneva, June 28-30 2004.

¹⁴ Fysh, M. (2003) 'The Work of the Patents County Court', IP Centre, St Peter's College Oxford, available at <http://www.oiprc.ox.ac.uk/EJWP0303.pdf>

However, to date, this approach has been unsuccessful, and barristers continue to appear.

7.2.2. Streamlined court procedures

The UK Intellectual Property Advisory Committee (IPAC) published a table in their 2003 report, “The enforcement of patent rights”, comparing patent enforcement systems in a number of European countries and the US¹⁵. This table shows the average length of trial in the US to be 2 weeks or more, compared to 1 to 5 days in the UK, 1 day in Germany, half a day in Holland and 2 hours in France. The following paragraphs provide more detailed information about the streamlined court procedures used in the UK and Germany:

7.2.2.1. The UK

In 2003 the UK Patents Court produced a standard set of directions for simple patent actions. These streamlined procedures are available for patent litigation in the UK patents courts (the UK Patents Court and the UK Patents County Court).^{16,17} The rationale behind the procedure was to enable appropriate cases to be brought to trial more quickly and cost effectively than under standard procedure. The procedure was designed to be flexible, consistent with the Patents Court’s desire to provide a “menu” of options tailored to the individual case. The court takes a number of factors into account in deciding whether a streamlined procedure is appropriate¹⁸, including: proportionality; the financial position of each of the parties; and the complexity and importance of the case. Either party to the dispute may also apply for the procedure to be streamlined, and if there is agreement:

- all factual and expert evidence is in writing;
- there is no requirement to give disclosure of documents;
- there are no experiments;
- cross-examination is permitted only on topics where it is necessary;
- the total duration of the trial will not normally be more than one day; and
- the trial will be fixed for a date within 6 months of when the order for the streamlined procedure is made.

By December 2005 only a few parties had elected to use the streamlined procedure. A decision by the Court of Appeal in February 2007 rejected an earlier proposition by the English High Court that the streamlined procedure for dealing with patent actions should apply whenever raised by a party to an action in the absence of convincing reasons to the contrary¹⁹. This has probably further reduced the likelihood of the streamlined procedure being used.

¹⁵ Intellectual Property Advisory Committee (IPAC), *The Enforcement of Patent Rights*, November 2003, UK. The report contains a table comparing patent enforcement systems in the UK, France, Germany, Holland and the USA see pp 49-51.

¹⁶ M.Jones, N. Stoaite, “Speedier patent trials in the UK – the “new” streamlined procedure”, 1 October 2005, <http://www.taylorwessing.com/topical-issues/details/speedier-patent-trials-in-the-uk-the-new-streamlined-procedure.html>.

¹⁷ Moore, S. (2006) ‘Practice Point: The Patent Court’s Streamlined Litigation Procedure – Two Years On’, *Journal of Intellectual Property Law and Practice*, 1(2), 113-118 see <http://jiplp.oxfordjournals.org/cgi/content/full/1/2/113>.

¹⁸ See http://www.hmcourts-service.gov.uk/infoabout/patents/crt_guide.htm for further detail about when streamlined procedure is applied.

¹⁹ *Research In Motion UK Limited v Inpro Licensing S.A.R.L.* [2007] EWCA Civ 51, Court of Appeal for England and Wales, 7 February 2007.

7.2.2.2. Germany

Compared with many other countries, Germany has shorter terms for civil proceedings²⁰. Preliminary injunction is frequently initiated in protection of IP rights. Sometimes final actual protection might be achieved within several hours through this proceeding. Practices show that in the IP litigations in Germany, 60-65% of them commence with preliminary injunction, and most of them end with this proceeding. Otherwise, an IP proceeding in the German courts is finalised in 5-6 months, although the time needed for an appeal might be longer. If the appellate decision needs to be reviewed by the Federal Supreme Court, the whole proceedings might last 4-6 years.

The German courts are said to grant a broad scope protection to patents and to decide patent infringement cases in swift and efficient proceedings^{21,22}. There are a number of factors which show the differences:

- There is no discovery in German procedure. Hence, a party who wants to rely on documents or on other evidence in possession of the other party has a more difficult position in German courts.
- The judge decides whether or not a witness or an expert needs to be heard. No evidence is heard which is irrelevant for the legal solutions found in judgment.
- As a rule, German lawyers are not paid by the hour, but rather earn a lump sum which depends on the amount in dispute, not on the time spent on the case. It should be noted, however, that lawyers are free to enter agreements with their clients in order to be paid by the hour. International law firms often operate only on the ground of such agreements.
- With every judgment there is a ruling on costs. Litigation costs have to be borne by the losing party. The successful party does not have to bear court costs. The losing party has to reimburse the legal costs of the winning party

7.2.3. Criminal sanctions

Criminal sanctions are particularly attractive in developing economies as such provisions give confidence to developed economies to invest and license their IP in that jurisdiction.

In some countries, a whole range of criminal sanctions can be applied in relation to the infringement of certain intellectual property rights. For example, China, the Netherlands, France, Spain and Denmark all provide for criminal sanctions for patent infringement²³, although to date in these countries the criminal procedure has rarely been used.²⁴

Switzerland has also recently increased the upper limit of available criminal sanctions for commercial infringements.²⁵

²⁰ D. Kehl and M Zhu, "German IP Legal system and Judicial protection – from the special perspective of temporary injunction for exhibition", China Intellectual Property, Comprehensive Report, December 2007, Issue 21, pp.85-89.

²¹ R Schuster and T Schachl, "Duty to disclose", Patent World Issue#189, February 2007, pp23-25.

²² Prof Dr J. Bornkamm, Judge at the Federal Supreme Court, Karlsruhe, "Intellectual Property Litigation under the Civil Law legal system; experience in Germany", WIPO Advisory Committee on Enforcement, Second Session, Geneva, June 28-30 2004.

²³ Freeland, R., and Parker, S., *Imprisonment for infringement?* Patent World July/August 2006 Number 184, pg 29.

²⁴ Claire Robley and Alison Wong, "Drawing the line: Chinese courts clarify thresholds for criminal sanctions", Patent World No.173, June 2005, pp.20-22.

²⁵ http://www.wipo.int/enforcement/en/news/2008/enforcement_01_08.html.

7.2.4. Damages

A wide range of damages are available in other countries. For example, the UK, France, Germany and Holland have no exemplary/punitive damages, while in the US punitive triple damages are available²⁶.

7.3. Alternatives to litigation

7.3.1. Customs seizure provisions

A key feature of the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is the obligation of members to introduce border measures for the protection of intellectual property rights²⁷. However, in reality customs authorities often have other priorities (such as the control of trade in weapons, drugs and noxious substances). In addition, their resources and expertise do not equip them to deal with the trade in intellectual property infringements. Thus, the presence of these provisions does not necessarily indicate that they are regularly used.

The UK is one of a number of European countries that has customs seizure provisions in place for goods which infringe patents²⁸.

On July 1, 2008, Switzerland introduced legislative amendments strengthening border measures allowing, for instance, a simplified procedure for destruction of illegal products by customs, and border control for goods in transit.²⁹

The Chinese government has announced plans to improve the efficiency of, and coordination between, law enforcement and customs personnel.³⁰

7.3.2. Awareness and education

Many countries have undertaken work to raise IP awareness. For example, the UK has created a number of educational resources such as the THINK kit and “Cracking ideas” (for school-age children), products and services to support and help business and business advisers, business support services and patent information centres.

The Korean Intellectual Property Office (KIPO) has a number of recent initiatives in this area, including those aimed at small to medium sized enterprises³¹.

International organisations such as WIPO and APEC also have programs and resources in place to increase the understanding of the intellectual property (IP) system and of its role in stimulating creativity and innovation³².

²⁶ In September 2006, Australia introduced measures allowing the award of exemplary damages in patent infringement actions.

²⁷ WIPO National Seminar on Intellectual Property for Faculty Members and Students of Ajman University, April 2004, see http://www.wipo.int/edocs/mdocs/arab/en/wipo_ip_uni_dub_04/wipo_ip_uni_dub_04_7.pdf.

²⁸ *The Goods Infringing Intellectual Property Rights (Customs) Regulations 2004* No 1473.

²⁹ http://www.wipo.int/enforcement/en/news/2008/enforcement_01_08.html.

³⁰ http://www.wipo.int/enforcement/en/news/2008/enforcement_01_08.html.

³¹ Presentation by AHN Jae-Hyun, Senior Director, Industrial Property Policy Division, Korean Intellectual Property Office at the National Seminar on Using IP PANORAMA for building capacity of SMEs, Ulanbaatar, Mongolia, “Korean National Experience on Building Intellectual Property Awareness and Capacity of Small and Medium-Sized Enterprises”, March 14, 2008. Initiatives include KIPO’s examiners visiting SMEs on request to provide customised consultations on IP; cooperating with the Korean Patent Attorneys Association in running the Public Patent Attorneys Centre (providing free consultation on IP to individual inventors and small enterprises); a “Cyber IP Academy” providing free customised training courses to SMEs; a patent map on patent infringement for SMEs.

³² see <http://www.apecipeg.org> and http://www.wipo.int/enforcement/en/activities/activities_08.html for further details.

7.3.3. Mediation

WIPO's Arbitration and Mediation Center was established in 1994, to offer ADR options – particularly arbitration and mediation, for the resolution of international commercial disputes between private parties.

By mid 2009, the Center had received over 80 requests for mediation, and over 110 requests for arbitration (the majority of these were filed in the previous four years). The subject matter of the arbitration proceedings administered by the Center have included patent infringements, patent licenses, telecommunications purchases and license agreements, software licenses, distribution agreements for pharmaceutical products, and research and development agreements. It also administers cases under uniform domain name dispute resolution policy (UDRP) procedures, and has dealt with over 15,800 of these cases.

In 2007 the center extended its activities and published the WIPO Expert Determination Rules.

The Center has an on-line tool (the WIPO Electronic Case Facility, ECAF) which has a secure on-line docket function, which facilitates the submission of case filings and enhances access by concerned parties to such submissions.

Referral to WIPO dispute resolution procedures is consensual. To facilitate the agreement of the parties concerned, the Center developed recommended contract clauses (for the submission of future disputes under a particular contract) and submission agreements (for existing disputes). If appropriate, the Center can assist parties in adapting the model clauses to the circumstances of their contractual relationship.

Further information about the Center can be found on its website: <http://www.wipo.int/amc/en/index.html>.

A recent agreement between WIPO and the Singapore Government will enable the Singapore Office of WIPO's Arbitration and Mediation Center to be established. It is expected to officially open in January 2010, and will focus on promoting ADR services in the Asia Pacific Region. It will provide training and advice on procedures such as arbitration, mediation and expert determination, as well as administering and facilitating hearings in cases conducted under the WIPO Rules in Singapore³³.

On 3 April 2006 the UKIPO also established a mediation service, aimed at encouraging more use of alternative dispute resolution in IP. This service enables opposing parties to discuss the problems causing the dispute with the help of an independent person or mediator without resorting to a court hearing. Apart from possibly settling disputes at low cost, an incentive for a party to participate in some form of ADR is that the court will consider this when it is time to determine the award of costs to the parties at the end of the litigation process.

The UK judiciary have also been calling for the use of mediation prior to litigation. For example, in *Dunnett v Railtrack* (in administration) [CA22 Feb 2002] the Court of Appeal advised both parties that they should consider the use of ADR. Subsequently,

³³See http://www.wipo.int/pressroom/en/articles/2009/article_0027.html

the respondents refused an offer to mediate from the appellant. Following the hearing, the appellant's appeal was dismissed. However, the respondent was not awarded costs. Lord Justice Brooke said:

"it is hoped that publicity will draw the attention of lawyers to their duties to further the overriding objective ... and to the possibility that, if they turn down out of hand the chance of alternative dispute resolution when suggested by the court, as happened on this occasion, they may have to face uncomfortable costs consequences".

This is the first time that a successful party has been refused costs because they declined to undergo a mediation process. The courts in UK may refuse to award costs to a successful party to the action where they cannot prove that mediation or some other form of ADR was attempted before any court action.

7.3.4. Validity and infringement opinion service

On 1 October 2005 the UKIPO launched an opinion service which was designed to help those involved in patent disputes by providing access to an impartial, non-binding and affordable opinion on whether a patent is valid and/or infringing another patent³⁴. It is not a new form of binding proceedings, but it is designed to help disputants focus on the key issues and test the strength of their respective arguments, without committing to a subsequent course of action. The opinion gives an independent assessment of the main issues in dispute and helps the parties in dispute test the strength of their arguments. An opinion costs £200 and takes no more than 3 months to be issued.³⁵ Around 20 experienced examiners are on "standby" to provide the service, and opinion requests are allocated to those most skilled in the technology in question.³⁶

UK officials claim the opinions service ultimately provides patent owners with an authoritative and balanced view on key patent enforcement matters within a sensible time frame. Opinions are claimed to be authoritative, because they are prepared by independent experts, and balanced, since in most instances both sides will have to come forward with their arguments. The trade-off for such advantages is that the proceedings are not litigated; but the main benefit is to obtain a quick assessment of the strength of patent rights. Even if litigation is not avoided the opinion obtained will at least help the parties clarify the real issues in dispute and therefore may reduce the cost and time of any subsequent litigation.

Since the first opinion was issued in January 2006, the office has been asked to consider over 80 opinion requests and has published over 60 opinions.

8. Enforcement of patents

8.1. Issues

When the patent system works to its optimum, it maximises the difference between the social value of IP created and used, and the social cost of its creation, including the cost of administering the system³⁷. This means that the benefits of the patent

³⁴ Barford, David "Where are we with opinions?" CIPA January 2007, Vol.36 (1). At the time of this article David Barford was the Deputy Director at the UK Patent Office.

³⁵ <http://www.ipo.gov.uk/newsletters/ipinsight-200805/ipinsight-200805-4.htm>.

³⁶ Phil Thorpe, UK IPO, January 2009.

³⁷ Intellectual Property and Competition Review Committee, "Review of intellectual property legislation under the Competition Principles Agreement", September 2000, p22.

system (such as public access to information about cutting-edge scientific research and its applications, and access to new and innovative products in the market place) outweigh the costs (resulting from the exclusive right granted to the patent holder for the life of the patent) to the greatest extent. It also means that administrative costs and inefficiencies resulting from the system have been minimised to the extent possible.

This section examines whether there are any issues preventing patentees from effectively enforcing their patent rights, and whether these issues stop the patent system from working to its optimum.

There are a number of factors that influence a patent owner’s ability to enforce their patent rights:

- temporal;
- financial;
- informational; and
- jurisdictional.

Nevertheless, it is not always easy to obtain hard data about the extent of the problem faced by patent owners; whether some groups are affected more than others; how they respond; and whether existing IP enforcement systems are considered to be successful. ACIP has obtained anecdotal evidence through consultations and submissions made to this review. In addition, where data is available, it is referred to in this report as appropriate.

ACIP notes that the Strategic Advisory Board for Intellectual Property Policy (SABIP) in the United Kingdom recently commissioned a literature review³⁸ to inform its future work programme on the social and economic impacts of enforcement related costs in the UK. The review focussed on literature relating to the civil enforcement of IP and the behaviour of firms in using and enforcing their IP rights. ACIP considers that the cited literature covers issues that are equally relevant to IP enforcement in Australia.

However, as noted in the SABIP literature review,

“We still know relatively little about the extent of infringement, and use of enforcement procedures. We know the least about the amount of infringement that occurs and the adoption of informal steps to enforce patents.”

The following discussion should be read in the light of this qualification.

In determining whether temporal, financial, information and jurisdictional factors prevent the patent system from working to its optimum, ACIP considered not only how an issue affects patentees, but also how it affects other parties to the dispute, innovators, industry, consumers and the public. For example, large costs resulting from a patent dispute may ultimately be passed on to the final consumer of the product. Significant delays resulting from a dispute may result in a product going to market much later than would otherwise have been the case. In both cases, the overall

³⁸ Weatherall, K., Webster, E., Bently, L., “IP Enforcement in the UK and Beyond: A Literature Review”, SABIP Report (Number EC001), May 2009.

benefits of the patent (to both the patent owner and to everyone else) do not outweigh the disadvantages (caused by the existence of the patent) as much as they could.

8.1.1. Temporal

Time is a critical factor when enforcing a patent for a number of reasons.

There are particular concerns for a patent applicant during the opposition process. Because the Australian opposition process occurs pre-grant, delays in this process can mean that the outcome of a patent application is not finalised for an extended period of time.

While any delay in grant of a patent does not normally affect the ability of the patent applicant to take a product to market, it does delay the patentee's ability to commence proceedings for infringement of the patent. It has also been argued that in some cases the patent owner's ability to commercialise is affected by a delay in grant. This might occur where a patent applicant has difficulty finding a commercialisation partner because the patent process has not yet been finalised. It should be noted however that such issues can be addressed when setting out the terms of license.

In addition, there is an opportunity cost to the patentee, in that time spent defending or enforcing a patent is time that they could have spent developing other innovations, or improving and marketing their current innovation. This is particularly true for SMEs.

Even after a patent has been granted, delays in the enforcement process can continue to occur. During the court process, delays are inextricably linked to costs, as expert witnesses and IP lawyers charge by the hour. This affects all parties to the dispute. These delays also affect the public interest, as court resources are limited, and other matters cannot be heard.

IPRIA's study of patent disputes in the Federal Court³⁹ contains information about delays. One fact which emerges from the research is that Australian litigation processes take a long time, longer than equivalent processes in the United States. For example, the average time taken for patent cases to reach judgement in Australia is 2.7 years from filing to the first instance decision, with a further 1.1 years if the matter goes on appeal – giving a total if it goes on appeal of 3.8 years⁴⁰. This is considerably more than the Federal Court target of disposal of all cases (except native title) within 18 months. IPRIA's study indicated that the parties in litigation may sometimes be responsible for the extent of these delays. In the meantime, approximately 85 per cent of patent cases settle, with peaks in settlements occurring within the first 100 days, then again between 200 to 300 days⁴¹.

A recent IPRIA survey of inventors in Australia⁴² noted that delay was cited by one in five inventors who responded, as a reason for deciding not to file patent infringement proceedings. The researchers note that it is possible that the results indicate that people

³⁹ Rotstein F. and Weatherall, K. (2007) 'Filing and Settlement of Patent Disputes in the Federal Court 1995-2005' *IP Forum*, 68, 65-74.

⁴⁰ Weatherall, K. and Jensen, P. (2005) 'An Empirical Investigation into Patent Enforcement in Australian Courts' *Federal Law Review* Volume 33, No. 2, 239-286.

⁴¹ Rotstein F. and Weatherall, K. (2007) 'Filing and Settlement of Patent Disputes in the Federal Court 1995-2005' *IP Forum*, 68, 65-74

⁴² Kimberlee Weatherall and Elizabeth Webster, 'Patent infringement in Australia: Results from a survey', IPRIA working paper 10/2009

are being turned off by the time a full proceeding will take in court without thinking about the possibility that a result may (and in many cases will) be achieved much more rapidly.

8.1.2. Financial

Financial factors are critical in the case of a patent for a number of reasons.

The relative financial capacity of parties in dispute can be a concern. The high cost of litigation has an effect on the bargaining power of the party with lower levels of financial resources. One respondent to IPRIA’s qualitative research stated,

“In my experience, small players playing Goliath will not take action. A small player will even be cautious about writing a letter of demand, knowing full well the big player will use the unjustified threat procedure to commence proceedings, and then it’s out of your control”⁴³.

A lack of financial capacity can be a major stumbling block for patent owners, as businesses or individuals with limited financial resources can often ill afford to proceed with legal action. This means that while the patentee has incurred costs in producing the technology, the value of the IP cannot be fully reaped by them. While other parties and the public may still have access to this particular technology, inventors could be deterred from patenting other ideas, leading to less social value in the long term.

The IPRIA survey of inventors in Australia⁴⁴ found that there were a significant number of inventors who felt that they incur substantial economic loss from infringement, but do not have the resources to pursue the matter through the courts. Notably, cost was the most cited reason (for both individual applicants and for large companies) for not sending a letter to the infringer despite being aware of non-trivial copying.

Lack of financial capacity is equally a problem for opponents to a patent. If the patent is not valid and the opponent cannot afford good legal representation, the patent may stay in force, creating uncertainty in the marketplace.

This will also have a negative effect on the public interest, if a patent stays in force merely because the opponent could not afford to challenge it in the courts. This will lead to a reduction in competition, as the exclusive right held by the patent owner will push prices up without any corresponding benefits in social knowledge. IPRIA’s submission quotes one respondent along the following lines:

“there’s a lot of patents out there people know are probably invalid....they know people don’t have the money to challenge them”⁴⁵.

The high cost of litigation affects all parties in a dispute. Despite previous reviews and their recommendations, the cost of patent enforcement has endured as a persistent problem. Even with awards of cost to the winning party in litigation and court procedures (designed to secure the legal costs of the opposition party in the event that

⁴³ IPRIA submission pg 8.

⁴⁴ Kimberlee Weatherall and Elizabeth Webster, ‘Patent infringement in Australia: Results from a survey’, IPRIA working paper 10/2009

⁴⁵ IPRIA submission pg 8.

they lose the action), enforcement of patents is a very expensive exercise in Australia and it is often referred to as the ‘sport of kings’⁴⁶.

Indeed, IPRIA’s qualitative research captured several responses from interviewees which highlighted people’s impression of patent enforcement costs:

‘Legal costs are a real impediment to people’;

‘Money is the biggest reason that cases settle’⁴⁷

The prohibitive cost of enforcement through the court system can represent many years’ profit derived from the patent and can even outweigh any expected cost recovery from damages or loss of profits. IPRIA has found that the issues of cost are the single most important consideration for both the patentee and the alleged infringer⁴⁸.

A 1999 report⁴⁹ published by the Australian Law Reform Commission (ALRC) included the results of a survey investigating attitudes and costs relating to the Federal Court of Australia. The responses were from legal practitioners. For IP matters, professional fees had a mean of \$76,900 with a range of \$8,000- 400,000 for applicants and a mean of \$36,100 with a range of \$2,100-280,000 for respondents. Disbursements in IP cases had a mean of \$19,700 with a range of \$4500-200,000 for applicants and a mean of \$2,400 with a range of \$10-14,300 for respondents.

Potentially high litigation costs may have other effects. For example, some parties may choose to proceed with litigation only if they believe that they have a very good case. In this case, the likelihood that they will settle the dispute out of court, once the litigation process has begun, is reduced⁵⁰.

Alternatively, parties may use the potential for high costs for strategic purposes. As respondents to IPRIA’s survey commented, “There’s a lot of game playing going on in litigation”, and “they might use tactics which, on the surface of it, are obfuscatory”. This is not unique to Australia - economic research literature from the US and Europe documents the anti-competitive uses of IP, in which litigation is used as the ultimate threat⁵¹.

ACIP heard evidence suggesting that high legal costs can be explained by four factors⁵²:

- The need to obtain specialised legal advice;
- The need to obtain expert witnesses;
- The legal process of discovery between the parties; and

⁴⁶ C. Dent and K. Weatherall, ‘Lawyers’ Decisions in Australia Patent Dispute Settlements: An empirical Perspective’ (2006) 17 Australian Intellectual Property Journal 255, 2.

⁴⁷ IPRIA submission pg 8.

⁴⁸ IPRIA Submission pg 8.

⁴⁹ ALRC Discussion Paper 62: Review of the Federal Civil Justice System T Matruglio Part two: The costs of litigation in the Federal Court of Australia, ALRC Sydney June 1999 (T Matruglio, Federal Court Empirical Report Part Two)

⁵⁰ IPRIA Submission pg 8.

⁵¹ Weatherall, K., Webster, E., Bentley, L., ‘IP Enforcement in the UK and Beyond: A Literature Review’, SABIP Report (Number EC001), May 2009.

⁵² For the purposes of this report, ACIP will not endeavour to provide a more detailed discussion of specific court processes, or the contribution that they may make to the relatively high cost of litigation. As outlined later in this report (see the opening paragraphs of section 9, on page 28), ACIP will focus primarily on non-Court alternatives.

- The time involved in explaining complex and technical issues to the judge (increasingly prevalent in many patent disputes).

8.1.3. Informational

The two most significant informational issues are uncertainty and lack of knowledge. “Uncertainty” includes the built-in cost for all parties to a dispute which has an uncertain outcome, while “lack of knowledge” covers knowledge about the process, technical and legal issues by parties involved.

Uncertainty may be caused by the complexity of patent law (particularly relevant in foreign countries), the probabilistic nature of patent rights and the high degree of uncertainty of outcome in legal proceedings. Uncertainty makes it difficult for those in dispute to make a reasoned business decision about whether they should take legal action, and what the likely outcome may be.

Uncertainty regarding enforcement is not exclusive to patent owners, as IPRIA’s research indicates that this may also be a prevalent concern amongst patent professionals. IPRIA’s submission refers to qualitative research that patent and legal professionals generally accept uncertainty in patent enforcement - but there are two aspects to this uncertainty - firstly, the complexity of the law, and secondly, the uncertainty that arises from inconsistent application of the principles of law. One respondent noted that

“it’s actually very difficult to advise people in relation to patents...with any degree of certainty on certain elements because the law is being changed, judicially, too often”.

Another noted that the application of the legal test meant that uncertainty was an inevitable part of patent litigation – whether in Australia, the US or the UK. However then IPRIA states that

‘the results of the empirical research do not show unanimity amongst the profession on the existence of undue uncertainty in patent law’.

IPRIA’s recent survey of inventors in Australia⁵³ did not find evidence that uncertainty about the validity of a patent was a significant factor in the applicant’s decision about whether to enforce the patent or not, and this was the case even at the stage when deciding whether to institute proceedings in court. It could therefore be concluded that uncertainty is less important than some of the other factors discussed in this section.

The other informational issue that may influence a patent owner’s ability to enforce their patent rights relates to lack of knowledge. Given the highly technical and specialised field of patent law, most patent owners have insufficient knowledge about their options when it comes to enforcing a patent. They incur costs (in terms of time and money) in obtaining this knowledge. ACIP has gathered considerable anecdotal evidence that knowledge of patent enforcement is quite low in Australia and that this may be a root cause of problems that a portion of patent owners have in relation to enforcement. Despite patent owners generally seeking assistance from IP

⁵³ Kimberlee Weatherall and Elizabeth Webster, ‘Patent infringement in Australia: Results from a survey’, IPRIA working paper 10/2009

professionals on the technical/legal issues relating to patentability, they can overlook the need to understand the commercial implications or realities of enforcing a patent. If patent owners are ill-informed of their rights and responsibilities, they can find themselves in precarious, uncertain and often expensive situations detrimental to their business.

A number of submissions also argued that the information provided about patent enforcement needs to be tailored to the audience⁵⁴ - and that the audience includes potential infringers and the public, as well as patent owners.

The IPRIA survey of inventors in Australia⁵⁵ suggested that public education in relation to patents should extend to better education of inventors at the point of applying for patents: in particular, education in making the assessment of whether a standard patent is the right option (as opposed to other, informal means of protection including being first to market, developing a community of loyal customers and users, or trade secret). Alternatively, better education about the steps that may be taken short of litigation and the potential for settlement could also be considered. These suggestions arose from the finding that a large set of inventors were aware of non-trivial copying, but did not send any kind of letter to the alleged infringer, because they thought it would be too costly. The researchers posed the obvious question – “why are people expending their resources in applying for patents if when they discover a possible, and non-trivial infringement, they cannot (or do not find it worthwhile to) extend their resources to the point of sending a letter?”

8.1.4. Jurisdictional

Many of the factors mentioned earlier are also relevant for Australians holding patents granted in other countries. However, those specific to overseas jurisdictions include the following concerns:

- language differences,;
- additional costs due to interpretation, foreign patent costs;
- need for local advice;
- challenging business climate; and
- weak patent enforcement regime in some countries.

A number of submissions noted the difficulties that patentees encounter when attempting to enforce their patents in overseas jurisdictions. FICPI’s submission supported Australia’s efforts to harmonise patent laws throughout the world, but listed a number of areas where work is still needed. The submission noted that the need to obtain specialist advice in multiple jurisdictions adds considerably to the costs and difficulties facing patent owners.

Indeed, the IPRIA survey of inventors in Australia⁵⁶ found that the most important reason for corporate patent applicants not to take steps towards enforcement was the fact that the infringer was based overseas.

⁵⁴ Confidential submission.

⁵⁵ Kimberlee Weatherall and Elizabeth Webster, ‘Patent infringement in Australia: Results from a survey’, IPRIA working paper 10/2009

⁵⁶ Kimberlee Weatherall and Elizabeth Webster, ‘Patent infringement in Australia: Results from a survey’, IPRIA working paper 10/2009

Another submission⁵⁷ commented that enforcing patent rights overseas is the main concern for their clients (all small Australian businesses), as this is where their existing and potential markets are located, and the major proportion of current and future revenues will come from exploitation of their overseas patents.

Finally, another paper reports the results of a survey of more than 2,100 Australian enterprises that have business dealings with China⁵⁸. When asked to rate how much they valued action by the Australian government to address IP issues, the top priority was to encourage China to increase enforcement of IP rights. It should be noted, however, that the survey found that more than half of the businesses facing IP problems in China choose to do nothing about them. The researchers conclude that IP issues, while problematic for some Australian businesses dealing with China, are not significant enough to outweigh the benefits of doing business with China.

8.2. Effect of previous and related reviews

As discussed in Section 6.3, there have been a number of reviews relating to the enforcement of patent rights in Australia. Some new measures have been introduced as a result of these reviews, including the introduction by the courts of a more active approach to case management⁵⁹, and IP Australia's programs promoting awareness and providing information about the importance and value of IP protection and commercialisation. IP Australia has developed a significant international reputation in the field of public education and awareness over the past decade. It has developed specific resources for groups including small to medium sized enterprises, IP owners, journalists, exporters, the fashion industry, school children and their teachers, and conducts regular seminars around Australia, targeted at specific audiences. It has also developed advocacy programs for Australian companies conducting business in China and Japan⁶⁰.

Another measure arising from both the March 1999 review by ACIP⁶¹ and the IPCRC Review⁶² was to allow the award of exemplary (or punitive) damages in patent infringement actions. This measure came into force in September 2006, and is only available for infringements that occur after that date. It is therefore probably too early to assess the effect of this change.

Some of the measures recommended in previous reviews have not yet been implemented, or have been only partially implemented. In some cases, this is because the recommendations were rejected by the Government, or because the measures were outside the scope of the Government's power. Some measures also appear to have been delayed or put on hold due to other Government priorities.

The recommendations which have not yet been implemented include some of those relating to court processes (many of which were made in the IPAC report of 1992);

⁵⁷ IP Strategies.

⁵⁸ Leahy, A., MacLaren, D., Morgan, D., Weatherall, K., Webster, E., and Yong, J. 'In the Shadow of the China–Australia FTA Negotiations: What Australian Business Thinks About IP', IPRIA working paper 7/2007

⁵⁹ See for example the recent Practice Note No.30: Fast Track Directions, issued by the Chief Justice of the Federal Court and which commenced on 24 April 2009.

⁶⁰ Further discussion of these programs can be found in section 9.2.2 of this report.

⁶¹ Advisory Council on Industrial Property, "Review of the Enforcement of Industrial Property Rights (patent enforcement)" March 1999.

⁶² Intellectual Property and Competition Review Committee, "Review of intellectual property legislation under the Competition Principles Agreement", September 2000.

indemnity and seizure provisions for infringing patent material; and extending the jurisdiction of the Federal Magistrates Service to patent matters.

9. Mechanisms for improving post-grant enforcement

ACIP is proposing a number of mechanisms which are designed to address the issues discussed in section 8 of this report – namely the temporal, financial, jurisdictional and informational factors, which influence a patent owner’s ability to enforce their patent rights.

These proposals reflect ACIP’s current views; however the purpose of this interim report is to provide interested parties with a further opportunity to comment. Once submissions have been received and considered, ACIP will finalise its report.

While this report considers improvements to the court system, its primary focus has been on non-Court procedures. This is because many of the issues relating to court processes are relevant to civil litigation more broadly, rather than being exclusive to patent litigation. In addition, the Government has limited influence over the workings of the Federal and State court systems.

Each of the proposed mechanisms are described and analysed in detail in the subsections below, along with relevant input from stakeholder submissions and consultations.

The most important proposal (discussed in subsection 9.1 below, and illustrated in Figure 1) is for IP Australia to establish an IP dispute resolution centre, along the lines of WIPO’s Arbitration and Mediation Centre. This centre would administer a number of enforcement-related services, including a validity and infringement opinion service; a patent enforcement resource for SMEs; and a register of experts with suitable qualifications from which individuals could be drawn to provide mediation services, expert assessment services, and to preside over a non-binding determinative ADR process in the form of a patent tribunal.

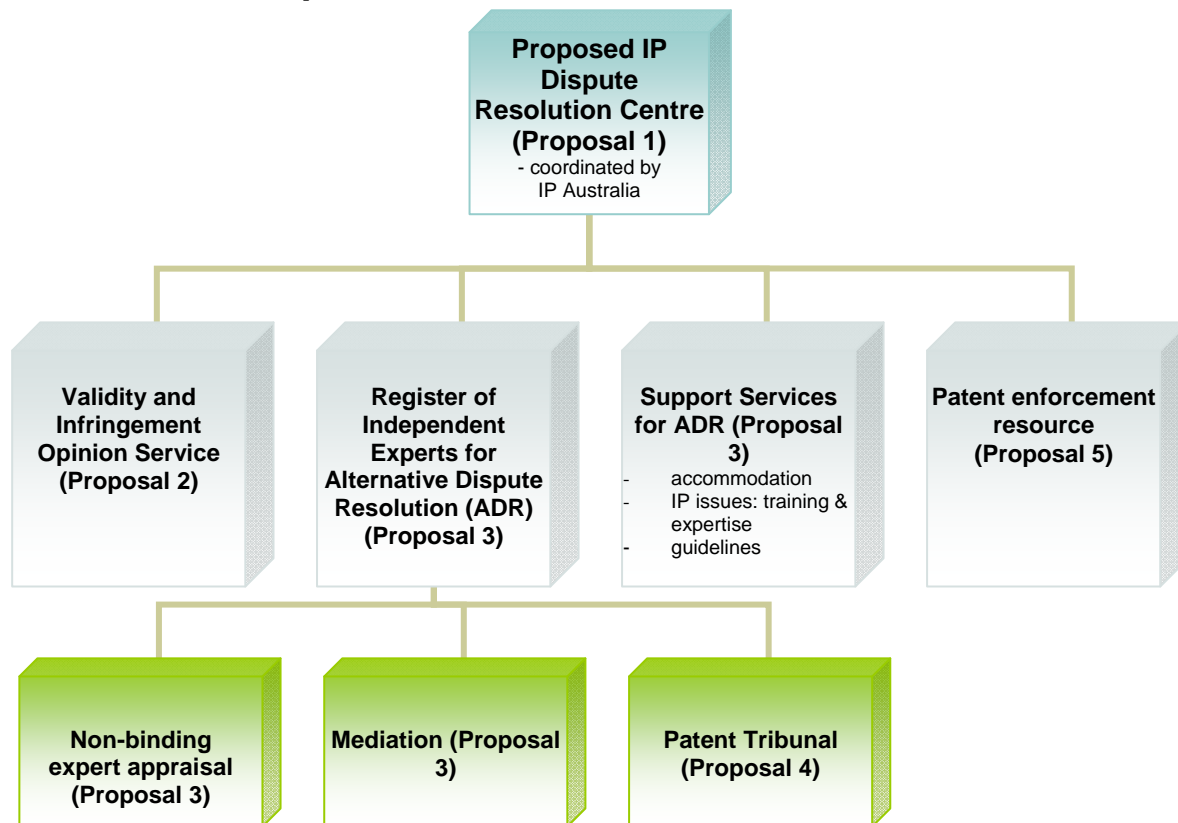
ACIP anticipates that these services would reduce the effects of the temporal, financial, jurisdictional and informational issues that patent owners face when enforcing their patent rights. For example, some of the uncertainty that patent owners face about whether to proceed with a dispute could be eliminated if they were to obtain a validity or infringement opinion, or if they engaged an expert to assess their likelihood of success. Further discussion about how each service is likely to assist patent owners is found in subsection 9.1 below. ACIP’s current view is that each service has sufficient merit that it should be established whether or not consolidated into an IP dispute resolution centre.

In addition to the IP dispute resolution centre and the services incorporated within it, this report includes some further proposals. The additional strategies that are proposed⁶³ include enabling Customs to act on a notification from a party that

⁶³ A number of other strategies were raised as possibilities in the Issues paper. ACIP has considered the submissions in relation to these strategies, and is currently inclined not to pursue them for the following reasons. Some of these strategies would clearly involve significant costs, and are unlikely to result in an increase in net social value. This is the case for tax reform (in which significant costs would be borne by the public); and an enforcement fund (this would involve significant administrative costs, and funding would be provided by other applicants). Other strategies are outside the control of the Government, and most submissions indicated that they are unlikely to be practical or workable. This is the case for legal fees and patent insurance.

infringing goods are entering Australia (ACIP considers that this would address temporal and financial issues for patent owners), and including patent matters within the jurisdiction of the lower tier of the Federal Court. These are discussed in subsection 9.3 below.

9.1. IP dispute resolution centre



ACIP is proposing that IP Australia establish an IP dispute resolution centre. This centre would 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.

The current government has stated that it believes innovation is critical to Australia's future as a strong, prosperous and equitable nation. It wants to create sustainable conditions for innovation to flourish and to support its economic, environmental and social priorities:

We have every reason to be optimistic about our future – but to fulfil our potential we must embrace innovation...This means finding new and better ways of doing things; it means thinking outside the square; and it means researchers, businesses, workers and governments coming together to play their part in the innovation system, all in the national interest⁶⁴.

Patent owners have been calling for more robust enforcement strategies and systems for a number of years. Despite previous reviews, and the implementation of some of

⁶⁴ Senator Kim Carr, Minister IISR, 9 Sep 08, "Government released Innovation Review paper" media release.

the recommendations from those reviews, the inability of patent owners to access relatively quick and affordable dispute resolution processes has become a long-standing problem. This is the case not only in Australia, but also in other countries. ACIP considers therefore that now is the time to take a more innovative approach.

On balance, ACIP believes that an IP dispute resolution centre which incorporates a number of complementary services is a practical and workable concept. In the longer term, ACIP considers that, if successfully implemented, it could contribute to the improvement of patent enforcement processes not only in Australia but also overseas – if other countries chose to adopt a similar approach.

ACIP considers that WIPO's Arbitration and Mediation Center⁶⁵ provides a model for such a centre.

In 1994, WIPO set up the Center to provide services for the resolution of disputes between private parties over intellectual property rights. This was in response to changes in which the way IP was being used by business - for many companies, intellectual property was becoming an essential business asset as well as a means of creating value. It was being exploited on an increasingly international level in various forms of collaborative arrangements, such as licenses, technology transfer agreements and R&D agreements. As a consequence, parties increasingly looked for dispute resolution mechanisms that matched their business requirements: private procedures which would provide efficient, flexible and less costly means of settling international disputes without disrupting commercial relationships.

Since its creation, the Center has advised parties and their lawyers on ways to resolve IP disputes, and provided them with access to mediation, arbitration and expedited arbitration. More recently, the Center has published rules to facilitate expert determination.

In the case of mediation, the neutral mediator assists the parties in reaching a settlement of the dispute. In the case of arbitration, the dispute is submitted to one or more arbitrators who make a binding decision on it. Expedited arbitration is an arbitration procedure which is carried out in an abbreviated time-frame and at a reduced cost. Parties may choose to use any combination of these services that they wish, and recourse to WIPO's service is on a completely voluntary basis, needing the agreement of all parties to the dispute in order to proceed.

Since 1995, the Center has organized Arbitration Workshops and Mediation Workshops designed for IP lawyers, business executives, patent and trademark attorneys and others wishing to familiarize themselves with ADR processes and to receive training as mediators or arbitrators. By the end of 2007, over 1,000 IP professionals from over 60 countries had attended these workshops.

From 2002 and following an initial period of creating awareness of the Center's procedures, the Center observed an increase in the number of arbitrations and mediations filed with it. By mid 2009, the Center had received over 80 requests for mediation, and over 110 requests for arbitration. The amounts in dispute varied between 20,000 euros to several hundred million US dollars. The Center also

⁶⁵ See <http://www.wipo.int/amc/en/history/>.

administers cases under uniform domain name dispute resolution policy (UDRP) procedures. In the last decade, it has dealt with over 15,800 of these cases and rendered decisions in relation to 26,000 disputed domain names.

From its establishment, the Center has focused significant resources on improving time and cost efficiency in IP alternative dispute resolution. WIPO's Arbitration and Mediation Center demonstrates that such a model can work, and that patent owners will use the services that it provides. While WIPO's Center focuses mainly on disputes occurring across international boundaries, ACIP considers that a similar model could work within Australia.

ACIP's current view is that putting the responsibility, resources and expertise into the hands of one central body would be most effective in reducing the effects of the temporal, financial and informational issues that patent owners face when enforcing their patent rights. While each role or service to be included in the IP dispute resolution centre would, on its own, have some benefits, to provide them as a package of accessible options would be a far superior prospect.

Firstly, it gives patent owners a single point of initial contact when they want to enforce their patent. This would make it easier for patent owners enforcing a patent in Australia to choose the most suitable approach for them, as the options are all laid out and explained in one place. Such a single point of contact contrasts sharply with the existing arrangement, where patent owners are left to find out for themselves how to commence litigation or arrange for other forms of dispute resolution. Many patent owners have little experience in this area, and may have difficulty identifying, assessing and carrying out the various options, or engaging suitably qualified experts to do so for them.

Secondly, it would enable efficiencies of scale to occur within the dispute resolution centre. This is because the centre could have a single register of experts, from which suitably qualified people could be drawn for the mediation service, expert assessment service and determinative ADR process, thus reducing the overall cost compared to setting up each service separately.

ACIP believes that such a centre should be located within IP Australia. The issue of funding would need to be considered, and ACIP believes that as a general principle, the cost of the services provided by the centre should be recovered from those who use it. This is consistent with the Government's principle of cost recovery, and would also minimise any trivial or vexatious use of the centre's services. Some of these services, such as the opinion service and the mediation service, would generally be paid for by users (consistent with the Government's general user pays principles), although it might be appropriate to exempt some users (such as small businesses) from this requirement.

The Government has already indicated that when it comes to looking at new programs, it favours bringing them within the umbrella of current institutional arrangements that are in place, so that the critical mass and expertise in administration of the programs can be used, and they become more cost-efficient.⁶⁶ Indeed, one of

⁶⁶ Dr Terry Cutler, 9 Sep 08, Media conference to release the review of the National Innovation System report, see <http://minister.innovation.gov.au/Carr/Pages/MEDIACONFERENCEWITHSENATORCARRDRTERRY/CUTLERANDDRNIC>

the terms of reference of the NIS review was to consider ways to improve the governance of the national innovation system to support higher expectations of government agencies and industry. This certainly implies that there is an expectation within government that agencies such as IP Australia will continue to provide additional and improved services to their customers.

On balance, ACIP believes that it makes sense to locate the IP dispute resolution centre within IP Australia, because patent owners are already familiar with the organisation through the processing of their patent application, and many patent owners already have a perception that IP Australia will be involved when they want to enforce their patent.

In addition, some of IP Australia’s existing physical and personnel resources could be used as required. For example:

- the validity and infringement opinion service could use suitably qualified and trained patent examiners;
- most of the information and expertise needed to create the patent enforcement resource already resides within IP Australia; and
- IP Australia has access to suitable accommodation both within Canberra and in the interstate capitals to facilitate accommodation for mediation and expert assessment sessions.

Proposal 1:

That IP Australia establish an IP dispute resolution centre along the lines of WIPO’s Arbitration and Mediation Center, which in the first instance focuses on patent disputes. Funding for the centre should be on a “user pays” basis.

9.1.1. Validity and infringement opinion service

ACIP expects that this mechanism would address some of the temporal and financial issues discussed in section 8, as well as uncertainty caused by the complexity of patent law and the probabilistic nature of patent rights. It would not be expected to address any lack of knowledge about the patent enforcement process, or any concerns specific to patent enforcement in overseas jurisdictions.

The most important issues in disputes over patents concern, firstly, the question of whether a patent is *invalid*, because the invention is not new or is obvious; and, secondly, the question of whether a particular product or process *infringes* a patent.

Up until recently most patent offices, including IP Australia, have maintained a passive role in relation to such disputes, with the extent of their activities often consisting of awareness and education programs. However, there is evidence that IP offices are becoming more proactive and adopting measures to assist patent owners to resolve their disputes in a more cost effective way.

HOLASGRUEN.aspx. “One of the challenges that the Minister gave to us in commissioning this review was the apparent fragmentation of industry programs and just the sheer number of them...”

IP Australia could follow this trend – for example, by providing a validity and infringement opinion service (along the lines of that provided by the UK Intellectual Property Office). In a best case scenario, this would allow parties to resolve the matter in a settlement that is fairer to both sides, without having to go to the Courts to resolve the matter.

The UKIPO's opinion service is intended to be relatively quick and simple and is based on the exchange of written submissions or 'observations' on the matter in dispute. The person who asks for an opinion files a written statement setting out the facts they wish to be considered. If a person seeks an opinion on validity, they may include the relevant prior art document(s) which, in their view, raise questions over the novelty or obviousness of the invention. If a person seeks an opinion on infringement, their statement will describe the product or process in question. The person seeking the opinion must make a new case - they cannot simply repeat arguments that have been dealt with in previous proceedings in the Patent Office or in legal proceedings. The fact that an opinion is being sought in relation to a particular patent is advertised to the public. This gives anyone who is interested in the issues the opportunity to make written submissions.

A number of submissions to the issues paper were against this proposal for the following reasons:

Ipernica

This is unlikely to benefit patent owners ... IP Australia has already provided its opinion on validity ... IP Australia has no current experience or skills of assessing infringement. This is an area for people experienced in infringement matters, such as judges experienced in patent disputes.

IPTA

...IP Australia is limited in its access to such expert resources so errors would be expected to occur. Correction of such errors through appeal or administrative review proceedings would add complexity, delay and expense to the process...IPTA questions whether an opinion service is required or desired by clients...

FICPI

FICPI Australia has considerable concerns about IPA providing opinions on the validity or infringement of patents.

Others clearly supported the idea and at the very least believed that the viability of such a service should be investigated and explored further:

Carden Industries Pty Ltd:

It would be of great benefit for the patent owners if on request, IP Australia provided an opinion on the issue of patent validity or infringement.

Gary Lea:

Yes [it is beneficial], provided that there remains discretion to weed out 'frivolous and vexatious' or otherwise inappropriate requests (as per s74A, PA 1977 (UK)). Also, such opinions should be clearly marked as non-binding.

On balance, ACIP considers that IP Australia should provide such a service.

While it is true that IP Australia has already examined the patent application, there is the opportunity for the applicant and the opponent to provide additional information at

the time of an opinion being requested. In addition, an opinion would also consider the issue of infringement, which is not relevant to the examination stage.

While patent examiners at IP Australia are not currently trained in the area of infringement, this could be done (as happens in the UK). It would be necessary to train only a relatively small number of examiners to cover all the technology areas (the UK has 20 examiners on standby to prepare opinions). It is not expected that the take-up of such a service would be particularly large, as the UK office has had 80 opinion requests in three years; it is expected that IP Australia might receive even fewer. Nevertheless, if such a service is of value to even a small number of people, ACIP considers that it is worth providing – particularly if it leads to improved confidence in the validity of patents for those who are unwilling or unable to pursue a case in the courts. This would address one of the key issues faced by patent owners, and discussed earlier in this report – that of uncertainty. It would aid them in deciding whether to proceed in a dispute, and give them a reasonably objective view of the likely outcome of that dispute.

There has been much discussion concerning the need to avoid an additional “layer” in the patent enforcement process. However, ACIP notes that there is no obligation to use such a service. The existence of such a service would merely add to the number of options available to patentees and their opponents. Indeed, ACIP considers that the proposed service could be particularly attractive for SMEs and individuals, and should be set up to take into account their specific needs.

While the patentee would not be pleased by an adverse opinion on validity, or by having to respond to submissions on validity by a party, this could equally have occurred during an opposition process or in the courts. At least with an opinion service, the cost would be lower and the time elapsed would be shorter than would be the case with an opposition or court process. Hence some of the temporal and financial issues outlined in section 8 of this report would also be addressed by this mechanism.

Proposal 2:

That IP Australia establish a validity and infringement opinion service (taking into account the needs of SMEs), along similar lines to that provided by the UKIPO, and incorporated within the IP dispute resolution centre.

9.1.2. Alternative dispute resolution (ADR)

ADR can take place at any stage of a dispute, right from the outset and even during court proceedings⁶⁷. Often parties only agree to ADR once their dispute has escalated and both see the sense in trying to resolve the dispute in a quick, cost-efficient

⁶⁷ For example, under section 53A of the *Federal Court of Australia Act 1976*, the Federal Court may refer the whole or any part of a proceeding to a mediator, with or without the consent of the parties. Mediation is a dispute resolution process which is part of the current procedures of the FCA.

manner. Indeed, IPRIA research has noted that 20% of settlements occurred at court ordered or court proposed mediation⁶⁸.

There are a number of different types of alternative dispute resolution procedures that can be used. These can be broadly divided into three groups:

- facilitative (including negotiation, mediation, and conciliation);
- advisory (including mini-trials, early neutral evaluation and expert assessment); and
- determinative (including arbitration, adjudication and expert determination).

There is a notable international trend towards the use of ADR processes. The recent announcement of a WIPO Arbitration and Mediation Center in the Asia Pacific Region⁶⁹, and a push towards greater use of ADR in the UK are examples of this.

9.1.2.1. Assessment and mediation services

Mediation is a process that can assist in finding common ground; identifying the key issues in dispute; and helping to solve some of the differences. It is a non-binding discussion process involving the parties, which is led by an independent mediator.

In contrast, expert assessment (also known as expert appraisal) is an advisory process which, while legally non-binding, can be used by both parties with an agreement to abide by the expert's findings.

It is ACIP's current view that the use of expert assessment and mediation can sometimes reduce the delay, cost, lack of knowledge and uncertainty for those involved in patent disputes. This is because those choosing to use these mechanisms may be able to resolve the dispute without taking it further. In addition, even if the dispute does eventually proceed through legal channels, it is likely that the main issues in dispute will have been substantially clarified before reaching court, potentially reducing the duration of the court hearing.

Mediation can happen through the court system, or through commercial services. There are a number of existing processes and providers that can be used, both internationally and within Australia. Similarly, there are a number of well qualified people in Australia who provide expert assessment services in commercial disputes.

On 3 April, 2006, the United Kingdom Patent Office (UKIPO) launched a mediation initiative aimed at encouraging more use of alternative dispute resolution in IP. This service enables opposing parties to discuss the problems causing the dispute with the help of an independent person or mediator, without resorting to a court hearing. The service has three staff that have been trained and accredited as mediators by the Centre for Effective Dispute Resolution (CEDR). Take up of the service has been slow initially (it was used twice in both 2006 and 2007; and seven times in 2008; in all but two cases the UK IPO's mediators were used). Users of the service have been varied, including large multinationals, SMEs and individuals.⁷⁰ WIPO's Arbitration and Mediation Center also offers ADR options including arbitration and mediation to

⁶⁸ C. Dent and K Weatherall, 'Lawyers' Decisions in Australian Patent Dispute Settlements: An Empirical Perspective' (2006) 17 Australian Intellectual Property Journal 255 and as IPRIA Working Paper 02/07.

⁶⁹ http://www.wipo.int/pressroom/en/articles/2009/article_0027.html

⁷⁰ Peter Back, Divisional Director, IPO, January 2009.

resolve international commercial disputes between private parties. In 2007 it extended its activities and published the WIPO Expert Determination Rules.

In the issues paper, ACIP sought feedback on whether mediation was beneficial to patent disputes, and whether a mediation service along the lines of the UK experience would be beneficial. Some submissions pointed out that there are circumstances where mediation is inappropriate – such as when one party has no incentive to settle, when the issues are complicated and require detailed analysis, or when a neutral opinion is required on the question of genuine differences. Others felt that IP Australia should not be devoting its resources to providing such a service, and that it is already available to parties in disputes. Nevertheless, the submissions were generally supportive of an increased use of mediation, where appropriate, as an alternative dispute resolution process for patent disputes.

FICPI:

FICPI Australia has long supported moves to reduce the cost of patent litigation or otherwise resolving patent disputes, and mediation can be one way of achieving this

AMPICTA:

In principle,...(mediation would be of benefit)...provided it is not mandatory. This is certainly worth exploring further.

Another alternative dispute resolution process is expert assessment. This can assist those in dispute by narrowing and clarifying the issues, as well as providing parties with an objective view. It provides a non-binding opinion to the parties on the outcome of the issues, the extent of their rights involved and the strength and weaknesses of both sides. It is possible for each party to engage their own expert, or for both to use the same expert.

ACIP is currently supportive of the concepts of mediation, and of expert assessment, and considers that IP Australia has a role to play in facilitating the use of both by parties in patent enforcement disputes. For example, IP Australia could become a central point of contact for those patent owners (and in particular small businesses) who want to enforce their patents, but are not aware of the options available to them. IP Australia could provide the connection between these patent owners and existing alternative resolution organisations which provide expert mediation and assessment services in commercial disputes. For those centres which do not have expertise in IP matters, IP Australia could offer training in IP issues (on a cost-recovery basis).

While bearing in mind the concerns expressed in submissions, ACIP believes that IP Australia should consider:

- setting up a register of experts drawn from outside IP Australia, members of which could provide mediation and expert assessment services;
- providing support for expert assessment and mediation services, in the form of:
 - training in IP issues and technical assistance to external mediators and expert assessors;
 - setting up well-defined guidelines for mediation which clearly set out how the mediator is chosen, the steps in the mediation process, the timing and any other relevant factors. These guidelines could apply to any mediation organised with IP Australia's assistance;

- setting up well-defined guidelines for expert assessment (along similar lines to that for mediation); and
- providing accommodation for mediation and expert assessment meetings.

ACIP considers that while IP Australia has a role to play in facilitating mediation and expert assessment, this role does not extend to providing IP Australia staff as mediators and expert assessors, or to funding such a service. ACIP also considers that it would be most appropriate that such a service be provided on a “user pays” basis.

Proposal 3:

That IP Australia:

- (a) establish a register of experts that could be drawn upon for non-binding expert assessment and for mediation; and**
- (b) provide support for expert assessment and mediation services;**

these functions to be coordinated within the IP dispute resolution centre.

9.1.2.2. Patent tribunal

If initial approaches (such as a letter, offer to license or mediation) fail, the next step for those wanting to enforce their patent is to take the matter to court. Disputes between private parties are determined in the Federal Court or the State and Territory Supreme Courts.

Despite previous reviews and their recommendations, the cost of patent litigation in Australia has endured as a persistent problem. As mentioned earlier in this report, IPRIA has found that issues of cost are the single most important consideration for both the patentee and the alleged infringer, while submissions to ACIP confirmed that enforcement of patents is a very expensive exercise in Australia. It should be emphasised, however, that these costs are not restricted to litigation in *patent* matters – the cost of civil litigation is a broader problem, particularly for smaller companies and individuals. Other countries are grappling with similar issues, and addressing them in different ways. For example, the German system has introduced measures to enable patent infringement matters to be decided swiftly and efficiently (further discussion of the German system is provided in section 7.2.2.2 of this report).

While the high cost of litigation affects all parties in a dispute, it is sometimes used as a tool for strategic purposes. For example, one party may encourage delays in the process, knowing that this will reduce the bargaining power of the party less able to bear the costs. The high cost of litigation will also encourage parties to avoid the litigation process unless they believe that their case is strong. This may mean that they are then less likely to settle out of court once the hearing has begun.

As noted in IPRIA’s study of patent disputes in the Federal Court⁷¹, Australian litigation processes take a long time, although the parties in litigation may sometimes be responsible for the extent of these delays.

ACIP had previously recommended extending the jurisdiction of the Federal Magistrates Court to include patents⁷², the rationale being that the Federal Magistrates Court could prove to be less intimidating and expensive, and provide an alternate avenue to those who would not have pursued a claim through existing court processes. Given that the Government decided not to implement ACIP’s recommendation, the Council has given much thought to potential alternatives.

One approach would be to improve the case management processes and technical assistance available to judges in courts exercising jurisdiction under the *Patents Act 1990*. Another is to set up a specialised intellectual property court, along the lines of the UK Patents County Court (PCC). Some submissions argued that ACIP’s recommendation to extend the jurisdiction of the Federal Magistrates Court to patent matters be pursued. Further discussion of the latter two alternatives occurs in Section 9.3.1 (“Other courts”) below.

Another option would be to set up an informal alternative to court enforcement options, such as a non-binding determinative ADR process⁷³ in the form of a Patent Tribunal.

Some submissions strongly supported the concept of a Patent Tribunal. They noted that it should provide a low cost and fast alternative to standard court proceedings, and that having specialist knowledge on the court is important. Submissions also outlined the major issues that they felt should be considered by the tribunal.

AMPICTA

A patent tribunal experienced with dealing with patents and their interpretation may assist patentees in obtaining certainty and reliability regarding their patent portfolios. Additionally, such a patent tribunal should provide a low cost and fast alternative to standard court proceedings....The main issues facing patentees are the lack of certainty that their rights are enforceable in a court, even post examination, and secondly the cost of enforcement. The introduction of a patent tribunal should clearly address these main issues.

Gary Lea

The Federal courts and State Supreme Courts are carrying such a volume of work that such a move would be justified on that ground alone. However, given the inherently specialist and increasingly complex nature of patent work, use of a correspondingly specialist tribunal is also an important consideration. In either case, one could reasonably expect to see a reduction in time (and, so, cost) of proceedings.

ACIP acknowledges, however, that such a tribunal would need to be set up with appropriate procedures and tribunal members, or it would become an option of little real value.

⁷¹ Rotstein and K. Weatherall, ‘Filing and Settlement of Patent Disputes in the Federal Court: 1995-2005’ (2007) 68 *Intellectual Property Forum* 65. The text and graphs used in this section are reproduced with the express permission of the authors.

⁷² Advisory Council on Intellectual Property, “Should the jurisdiction of the Federal Magistrates Service be extended to include patent, trade mark and design matters?”, November 2003.

⁷³ See the earlier description of the types of ADR in section 9.1.2 of this report.

There are some potential difficulties with setting up a non-binding determinative ADR process such as a Patent Tribunal. Some patent owners, for example, may expect to get an enforceable result from the Tribunal. Some submissions argued that, if that is not possible, it would be preferable to reform case management processes in existing courts:

CSIRO

The time taken to run patent proceedings ... together with uncertainty in the law ... seem to be major sources of the difficulties....Consequently, rather than introducing an additional non-binding procedure which would involve additional cost, a better approach may be to consider addressing the source of the problem... consideration could be given to ... providing more specialised training for judges hearing patent cases in the Federal Court.

Law Council of Australia

....this proposal is not viable first because it just adds another layer of complexity, secondly, because the tribunal would be less well equipped than is the court with appropriate witnesses before it and thirdly, the tribunal's determination would inevitably be followed by starting all over again in a hearing de novo.

Ipernica

Rather than creating a new forum for patent disputes, we believe it would be more effective to assist the courts to become more efficient.

Many recommendations from previous reviews of IP enforcement related to streamlining court procedures or otherwise improving the court system. ACIP acknowledges the moves that have been made by Australian courts in recent years to become more efficient. Nevertheless, it is clear from IPRIA's work that more remains to be done in this area, and this is likely to be a slow process. Further improvements to the court system could include the recruitment of specialist judges, the provision of specialised IP training for judges, and changes to the discovery process.

ACIP notes, however, that changes to court processes are outside the direct control of government. While encouraging the courts to continue to improve their processes, ACIP believes that now is the time to propose that the Government promote alternative strategies. For this reason, many of the proposals in this report focus on assisting patent owners (particularly individuals and SMEs) to enforce their rights in other ways.

A quicker and cheaper alternative to court enforcement is needed, especially for SME patent holders. For these parties, infringement needs to be stopped quickly before their business is irreversibly damaged. For this reason, and despite some of the objections raised in submissions, ACIP has decided to investigate in more detail the possibility of introducing a *non-binding determinative* ADR process, such as determination by a Patent Tribunal that is not a court. ACIP believes that a Patent Tribunal has the potential to overcome some of the cost and delay issues discussed earlier. Such a body could sit on a part-time basis when needed, and bring in suitable qualified decision-makers when required.

Earlier ACIP reviews have considered the option of determining issues of infringement in a non-judicial tribunal⁷⁴, but this option was previously rejected by ACIP as being unviable due to constitutional constraints. This is because it is

⁷⁴ Advisory Council on Industrial Property, "Review of the Petty Patent System", October 1995

unconstitutional to vest judicial power in a body unless it is a ‘court’ within the meaning of s 71 of the Constitution. Any court created by the Commonwealth Parliament must be staffed by judges whose tenure and remuneration are protected under s 72 of the Constitution. The distinction with the current proposal is that the previous proposals were looking at conferring enforceable jurisdiction on a non-judicial tribunal. ACIP’s current proposal is for a Patent Tribunal that is not a court for the purposes of Chapter III of the Constitution, and thus has no enforceable jurisdiction.

ACIP understands that a Patent Tribunal could be established, as long as it had its functions defined in such a way as to ensure that it was not exercising judicial power. The Tribunal could have the power to produce an advisory determination on disputes between private parties. The result of such a determination would not be formally binding on the parties (in the sense that a failure to comply with the determination would not amount to a contempt of court). Any subsequent litigation of the same matters in court would be a *de novo* review.

A number of submissions suggested that, given that it is a non-judicial body whose determinations are not formally binding on the parties, there is little benefit in setting up such a tribunal. ACIP is currently of the opinion that there would be a proportion of cases in which the Tribunal’s determination would be accepted by the parties. In those cases, being able to reduce the time and costs involved in going to court could be seen as a distinct advantage.

In addition, ACIP believes that it would be possible, and that it would be desirable, to introduce mechanisms that encourage parties to accept the determinations of the Patent Tribunal. One possible mechanism is to require a court, in any subsequent litigation about a matter on which the Tribunal has produced a determination, to take into account the Tribunal’s determination when considering awards of damages and/or costs. For example, if the Tribunal had determined that a party was infringing a patent and that party had ignored the determination, in the event that a court came to the same conclusion the court should be empowered and encouraged to award *additional damages* under s. 122(1A) against the infringing party (on the ground that the infringing party had chosen not to accept the Tribunal’s determination). Another example is where a Tribunal had determined that there was no infringement of the patent and the patentee nevertheless brought infringement proceedings in a court. In the event that the court found against the patentee, the court should be empowered and encouraged to make an award of costs greater than party-party costs, including those costs incurred at the Tribunal, against the patentee (on the ground that the patentee had chosen not to accept the Tribunal’s determination).

ACIP recognises that, even where the possibility of seeking a Patent Tribunal determination existed, some parties might wish to bring proceedings in a court instead, for strategic reasons. For example, where a patentee is financially stronger than an alleged infringer, the patentee might choose to bring an infringement action in a court rather than seeking a Tribunal determination, on the ground that the high cost of the court proceeding may force the alleged infringer to settle (even if the claim for infringement is not strong). ACIP believes that it would be possible, and that it would be desirable, to introduce mechanisms that encourage parties to use the Tribunal to resolve disputes, rather than to litigate in a court. One mechanism is to encourage courts to refuse to award costs in favour of a successful plaintiff where the court

concludes that the matter should have been brought before the Tribunal for determination.

ACIP expects that those appearing before the Tribunal would contribute, at least in part, to the costs of the hearing – along similar lines to the process used currently in opposition hearings before the Commissioner of Patents.

In summary, ACIP believes that it is possible, through the adoption of a combination of mechanisms along the lines described above, to ensure that a Patent Tribunal would be used as means for resolving a significant number of patent disputes, despite the formally non-binding nature of its determinations.

ACIP understands that a Tribunal along the following lines could be established:

- each Tribunal hearing panel to comprise up to 3 people, integrating legal and technical expertise;
- patent attorneys to have a right to appear;
- the Tribunal to have streamlined procedures and simplified evidentiary requirements;
- the Tribunal to take a pro-active and inquisitorial role; and
- mechanisms be introduced to encourage parties to comply with the Tribunal's determinations, and to discourage parties from using the courts instead of the Tribunal where it would be appropriate to do so

A tribunal is attractive because of virtues that the courts cannot provide. Ensuring that the panel members for a Tribunal hearing have relevant technical expertise would reduce the time needed for the panel members to grasp the technological aspects of the patent in dispute. ACIP expects that this would reduce the hearing time and cost of proceedings.

ACIP also believes that enabling patent attorneys to appear before the tribunal would be an advantage. IPTA's submission supported a lower cost forum for resolution of patent disputes, where patent attorneys were allowed to appear as an advocate, and noted that this has already been implemented in the UK. ACIP agrees with this view, and notes that patent attorneys are familiar running matters before analogous tribunals (ie. patent opposition hearings). ACIP anticipates that giving patent attorneys a right of appearance would result in lower pre-hearing costs, as the need to brief another person would be eliminated.

A Patent Tribunal would have much more streamlined procedures, without the rules of evidence and other formalities that are necessary in a court. Neutral individuals with the necessary scientific expertise could also be selected as tribunal members. Given that the Patent Tribunal would not be a court, there would not be a need for the rules of evidence to apply.

Finally, giving the Tribunal a more inquisitorial role would allow the substance of the argument to be reached and discussed more efficiently and effectively.

ACIP believes that a non-binding determinative ADR process would assist patent owners, and particularly SMEs, by reducing costs. ACIP has heard evidence suggesting that high legal costs can be explained by four factors: the need to obtain

specialised legal advice; the need to obtain expert witnesses; the legal process of discovery between the parties; and the time involved in explaining complex and technical issues (prevalent in many patent disputes) to the judge. In each of these cases, a non-binding determinative ADR process (such as a Patent Tribunal) would lower the costs.

In addition to reducing the financial outlay incurred, ACIP considers that a Patent Tribunal would encourage more businesses or individuals with limited financial resources to proceed via the Tribunal. This means that they are more likely to be able to fully reap the value of their IP, and are more likely to continue to innovate.

A Patent Tribunal would also be more likely to produce an outcome in a shorter time for a significant proportion of disputes. This is likely to be particularly helpful for those who may not have sufficient resources to tide their business over during a dispute when no cash is coming in. It should also be noted that even after a patent has been granted, any delays in the enforcement process effectively shorten the time available for the patentee to recover their costs, thus reducing the benefits of their exclusive right.

Another potential benefit of a Patent Tribunal would be to reduce the opportunity costs that occur during a dispute – when time is spent defending or enforcing a patent rather than developing other innovations, or improving and marketing the current innovation.

The lower costs and time delays available through a Patent Tribunal would also benefit the wider community. For example, those wanting to challenge a patent might be more likely to take action. This contrasts with the current situation where if the patent is not valid and the opponent cannot afford legal representation, the patent may stay in force preventing the opponent from competing in the marketplace.

Reducing costs and delays would also enable consumers to gain the benefits of new technology as soon as possible, as in many cases a product will not be put on the market until a dispute is resolved. The wider community would also benefit from any resulting improvement in the validity of patents. This is because currently there is a negative effect on the public interest if a patent stays in force merely because the opponent could not afford to challenge it in the courts. This leads to a reduction in competition, as the exclusive right held by the patent owner pushes prices up without any corresponding benefits in social knowledge. IPRIA's submission quotes one respondent along the following lines:

“there's a lot of patents out there people know are probably invalid....they know people don't have the money to challenge them.”⁷⁵

Finally, ACIP believes that the effectiveness of such a Patent Tribunal should be monitored.

⁷⁵ IPRIA submission pg 8.

Proposal 4:

That IP Australia establish, within the IP dispute resolution centre, a non-binding determinative ADR process in the form of a Patent Tribunal along the following lines:

- (a) each Tribunal hearing panel to comprise up to 3 people, integrating legal and technical expertise;**
- (b) Tribunal hearing panel members to be drawn from the register of experts established under Proposal 3;**
- (c) patent attorneys to have a right to appear;**
- (d) the Tribunal to have more streamlined procedures and simplified evidentiary requirements;**
- (e) the Tribunal to take a pro-active and inquisitorial role;**
- (f) mechanisms be introduced to encourage parties to comply with the Tribunal’s determinations, and to discourage parties from using the courts instead of the Tribunal where it would be appropriate to do so; and**
- (g) that the effectiveness of the Patent Tribunal be monitored from its date of establishment.**

9.1.3. Patent enforcement information resource

As discussed earlier in this report, given the highly technical and specialised field of patent law, most patent owners have insufficient knowledge about their options when it comes to enforcing a patent. They incur costs (in terms of time and money) in obtaining this knowledge. ACIP has gathered considerable anecdotal evidence that knowledge of patent enforcement is quite low in Australia and that this may be one of the reasons why patent owners can encounter difficulties in relation to enforcement. Despite patent owners generally seeking assistance from IP professionals on the technical/legal issues relating to patentability, they can overlook the need to understand the commercial implications or realities of enforcing a patent. If patent owners are ill-informed of their rights and responsibilities, they can find themselves in precarious, uncertain and often expensive situations detrimental to their business.

AMPICTA:

(IP Australia’s current information on patent enforcement)...is not sufficient. The whole concept of patent enforcement is inextricably linked to the overall concept of intellectual property protection ...

IPTA:

The UK *Gowers Review of Intellectual Property* recommended a higher role for its Intellectual Property Office in increasing ‘generally low’ public awareness of intellectual property. As certain indicators (see Australian Bureau of Statistics Innovation Surveys of 2003 and 2005 provide data suggesting similarly low awareness in Australia), IPTA suggests that the same probably holds true in Australia and that the profession and IP Australia can greatly assist in raising public awareness of issues such as enforcement.

G. Lea:

Historically, IP Australia's education and training has, for obvious reasons, has been geared towards the grant process for patents (and, similarly, registration processes for trade marks and designs): the move now has to be made to a balanced, 'whole of lifecycle' approach to IP education and training issues.

A number of submissions also argued that the information provided about patent enforcement needs to be tailored to the audience - and that the audience includes potential infringers and the public, as well as patent owners.

Confidential submission:

We agree with the Issues Paper that a certain demographic of patent owners needs basic patent enforcement education. There is a different demographic of patent owners who require more sophisticated patent education, and it would be useful for IP Australia to explore these needs. There is also a requirement for the education of potential infringers... Some areas it (IP Australia) could focus on is education on private and public company directors, universities, technology parks, etc. It should also consider public education campaigns on TV and on the internet. It should consider who the repeat patent applicants are and provide tailored education to those sectors, rather than just the broad brush strategy aimed at first-time filers which seems to be the current approach.

One of the primary roles of IP Australia is to increase the awareness of and understanding about patents and the patent system. The Issues Paper sought feedback on whether IP Australia's information on patent enforcement was sufficient and whether there was a need to refocus education programs to seek more effective ways to raise awareness and understanding. Numerous stakeholders indicated that there was insufficient information available from IP Australia on patent enforcement and there was a need to refocus IP Australia's education and awareness programs. There are a number of possible ways to convey this information to patent owners, and ACIP does not intend to prescribe any particular means. Examples include a website devoted to the issue of enforcing a patent, and sending information on patent enforcement to a patent owner when their patent is granted or renewed.

ACIP notes a number of knowledge gaps that it considers should be addressed in order to improve awareness about patent enforcement. These include:

- a summary of the patent enforcement process in Australia, including clarification of the court process;
- restatement of the law relating to patent validity and infringement in simpler terms;
- the fact that there is no assumption of a patent's validity after grant;
- the fact that the enforcement process is funded by the patentee;
- the fact that successful enforcement is often dependent on the way in which the claims have been drafted; and
- the fact that enforcement is jurisdiction-specific.

Proposal 5:

That IP Australia establish a resource which provides information about patent enforcement.

The Australian Law Reform Commission conducted an enquiry into the intellectual property aspects of genetic material and technologies, which culminated in the final report, “Genes and Ingenuity: Gene patenting and human health”, tabled in Parliament in August 2004. One of the recommendations of this report was that information about patent litigation be made more readily accessible to the public⁷⁶. There has not yet been any formal Government response to the report, although the ALRC recently reiterated its findings and recommendations in its submission to the Senate Standing Committee on Community Affairs’ enquiry into gene patents.

ACIP agrees with the ALRC that it would be beneficial for information about patent litigation to be more readily accessible. ACIP recognises that various provisions of Order 58 of the Federal Court Rules require an applicant in an infringement action, a revocation action and certain other actions to serve on the Commissioner of Patents a copy of the application and of an affidavit or statement of claim. These Rules ensure that the Commissioner is notified of the *commencement* of the litigation; they do not, however, ensure that the Commissioner is informed of the *outcome* of the litigation. ACIP notes that section 140 of the Patents Act requires the Federal Court to provide the Commissioner of Patents with a copy of an order made under Chapter 12 of the Act – i.e. of an order either revoking a patent or granting a compulsory licence to a patent. The Act does not, however, require the Court to provide the Commissioner with copies of any *other* orders, such as orders with respect to a determination of infringement of a patent.

IP Australia has informed ACIP that the Commissioner of Patents places whatever information is received about the outcome of litigation on the file for the patent in question, and includes details of any orders in the register. However, such information does not appear in IP Australia’s publicly searchable electronic databases. ACIP notes that details of actions commenced in the Federal Court can be accessed online, via the Federal Law Search facility. This facility allows for searching of cases by name of party and type of action. However, it does not allow for searching of cases by patent number. Thus, the Federal Law Search facility does not enable interested persons to find out what litigation has occurred in relation to a particular patent unless they already know the names of the parties to that litigation.

ACIP has considered the ALRC recommendation, and agrees that specific information about litigation that has occurred in respect of a patent is valuable to all stakeholders concerned with the enforcement of patents. ACIP considers that this is the case for patents in all technologies, not just those relating to genetic materials. IP Australia’s searchable databases currently allow the public to access information about patent applications and granted patents. The information made available includes the scope of protection claimed, and the details of the applicant and inventor. ACIP believes that in addition, as recommended by the ALRC, it would be very

⁷⁶ “Genes and Ingenuity: Gene Patenting and Human Health”, (ALRC99). See paragraphs 9.68 to 9.70.

useful for the same databases to contain information about court proceedings that have been undertaken in respect of a particular patent, including, in particular, the outcome of those proceedings. ACIP thus endorses the recommendations of the ALRC, and encourages the government, IP Australia and courts exercising jurisdiction under the Patents Act to give effect to those recommendations to the extent to which they have not already been implemented.

Proposal 6:

That

- (a) the Patents Act 1990 (Cth), and the rules of courts exercising jurisdiction under the Patents Act, be amended to ensure that the Commissioner of Patents is provided with information about the existence and the outcome of all court actions in respect of a patent; and**
- (b) IP Australia provide public access to the information so provided to the Commissioner of Patents, either through or in association with its online searchable databases of patent information.**

9.2. Patent enforcement in other countries

Many Australian patent owners want to export their product overseas. Exporting can be a profitable way of expanding the business, spreading risks and reducing dependence on the local market. On average, exporting companies are more profitable than their non-exporting counterparts⁷⁷. But companies – particularly SMEs – often find it difficult to enforce their patents in other countries. These difficulties arise for a number of reasons.

Firstly, if a business is selling their product in several countries, they need to deal with potentially different laws and requirements in each jurisdiction. If legal action is needed, they may have to take separate legal action in each country. They may need to have several sets of lawyers to advise on the same issue (one set for each country in which litigation is occurring, as well as a set in Australia) – effectively multiplying the time and cost involved. It can take time and substantial effort to understand the individual complexities of another system of justice, and there is no guarantee that they will have the same outcome in each country.

There is clear evidence⁷⁸ that one of the most dominant reasons cited by patentees for not taking steps to enforce their patent is the fact that the infringer is based overseas.

In addition, the legal processes in some countries can be even slower and/or more costly than in Australia. Other problems that are unique to litigating in another country include a perceived or real bias against overseas litigants, and a lack of respect for IP in some cultures.

⁷⁷ See Austrade website at <http://www.austrade.gov.au/How-to-export/default.aspx>

⁷⁸ Kimberlee Weatherall and Elizabeth Webster, 'Patent infringement in Australia: Results from a survey', IPRIA working paper 10/2009.

Indeed, economic research literature from the US and Europe documents anti-competitive uses of IP, in which litigation is used as the ultimate threat⁷⁹.

The Australian government has no ability to directly control overseas systems. However, the government can assist patent owners who want to enforce their patents overseas by external and internal strategies. External strategies are measures that will directly help in the overseas country, while internal strategies can be undertaken within Australia to assist patent owners to enforce their patent overseas.

9.2.1. External strategies

The Australian government has been active in pursuing external strategies for a number of years. These include the Australian Government's current efforts through the United Nations' World Intellectual Property Organization (WIPO), to ensure other nations implement patent laws and enforcement systems that meet minimum international standards such as those outlined in the agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The global harmonization movement on IP has had some degree of success, but it is a slow process. There are still many countries that do not have fully developed IP enforcement systems, and this presents considerable difficulties for Australian patent owners – as noted in a number of submissions:

Gary Lea

...there is a need for a concerted push for a substantive Patent Law Treaty to complement the existing, process-centric one.

IPTA

There are certain countries which are more problematic than others... Diplomatic efforts should continue to address this...Austrade and similar agencies could be invited to play a greater role on IP issues overseas...

FICPI

...not enough is being done to harmonise enforcement procedures in different countries of the world...the manner of taking evidence from experts varies so widely from jurisdiction to jurisdiction.

Australia also contributes through WIPO by assisting countries to develop their IP systems, particularly in the Asia-Pacific region. This was acknowledged by one submission:

IP Strategies

The current efforts made by the Australian government and IP Australia in encouraging other countries to meet minimum patent law and enforcement standards is to be applauded and encouraged...

Given the TRIPS requirement that enforcement procedures not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays⁸⁰, it has been suggested that mechanisms should be introduced at the international level in order to bring these issues to the fore. Such mechanisms could involve strengthening the existing WIPO mediation service, and inserting penalties for parties who are clearly abusing the system.

⁷⁹ Weatherall, K., Webster, E., Bentley, L., 'IP Enforcement in the UK and Beyond: A Literature Review', SABIP Report (Number EC001), May 2009.

⁸⁰ TRIPS Article 41, para. 2.

Another external strategy is the prominent emergence of bilateral and multilateral free trade agreements (FTAs) with other countries. FTAs often include text on a shared understanding and commitment of international treaties on IP protection such as the TRIPS Agreement.

9.2.2. Internal strategies

Internal strategies to aid patent owners in enforcing their patents overseas include providing information about the enforcement regimes in other countries. The Australian Government provides general industry and country profiles and information for Australian exporters through its Austrade website⁸¹. IP Australia has also been carrying out work in this area - most recently, to help Australian companies that want to do business in China and Japan⁸².

Under the China advocacy program, IP Australia carried out market research on Australian businesses' knowledge of IP administration and enforcement, and identified areas of concern about IP in China. The Australian Industry Group and the IP Research Institute of Australia also undertook research in the subject. The studies revealed a lack of understanding of the need to develop appropriate IP strategies and a lack of understanding of mechanisms to register and protect IP in China. The studies provided stimulus and support for IP Australia to be involved in developing IP information to support Australian traders in, or contemplating, doing business in China.

As a result of this research, IP Australia sought increased engagement with Chinese IP officials, provided two highly successful seminars series in capital cities around mainland states (with over 2000 registrants), and developed fact sheets and a website to assist Australian IP owners and their advisers trading in, or with China, to more effectively protect their IP and business interests. The website address for this program is http://www.ipaustralia.gov.au/resources/china_introduction.shtml.

The Japan advocacy program is underway on a smaller scale to assist Australian businesses to better understand the Japanese IP environment. A website containing comprehensive fact sheets, dedicated to increasing awareness of the Japanese IP system has been developed. These fact sheets cover general information on IP in Japan and provide information on protection of each of the IP rights. Case studies are being developed. The website address for this program is http://www.ipaustralia.gov.au/resources/japan_introduction.shtml.

A number of submissions to this review felt that little could be done within Australia to help patent owners enforce their patents overseas:

FICPI

...little...can be done domestically to assist in overseas enforcement...we do not support cross-jurisdictional support of decisions in IP matters unless the relevant laws and the practical application of the laws of the two countries are completely harmonised...enforcement issues are generally case specific and it is necessary to secure professional advice from a person practising in the relevant overseas country.

⁸¹ See <http://www.austrade.gov.au/>

⁸²In the context of developing the FTA with China, IP Australia carried out an advocacy program to give Australian business a better understanding of the IP system in China, and assist them with strategies to protect their IP. A similar program on a smaller scale is underway in relation to Japan.

IPTA

Domestic changes will have limited impact...

Submissions also expressed concern about the risk of having out-of-date or incorrect information published:

Gary Lea

the risk of providing incorrect or out-of-date information on the procedures and institutions in a foreign jurisdiction far outweighs the benefits of the information provided...such an effort would require an enormous and expensive team of contributors, editors, etc

FICPI

...such an on line information site is likely to be costly to produce and maintain, with very little benefit.

IPTA

More information about how the site would operate is needed...cost and data integrity are likely issues.

ACIP notes this concern, and the importance of keeping associated websites and publications up-to-date. ACIP also notes the need to devote sufficient resources to maintaining and expanding the scope of this information.

Some submissions suggested additional strategies that could be effective:

FICPI

...foster a network of Australians experienced in enforcing patents overseas. Patent owners considering enforcing overseas could engage with the network to ensure they do not make basic strategic errors...

IP Strategies

...an information exchange based on real situations would help...the most effective assistance would be to reduce the effective cost of overseas litigation.

A recent IPRIA working paper, in which more than 2,100 Australian enterprises that have business dealings with China⁸³ were surveyed, also discussed options for addressing enforcement problems in China. These included bilateral cooperation in law enforcement; or the operation of the relevant administrative agencies (such as those for copyright collection); or annual bilateral meetings to discuss enforcement issues. The researchers noted that as China develops its own R&D capacity, these measures are also likely to be in the interests of innovative Chinese businesses.

Another positive internal strategy is to be innovative and introduce effective systems which other countries may choose to adopt. ACIP believes that Australia is more likely to influence other countries to improve their IP enforcement systems when we have successfully addressed the issues that reduce the net social value of IP within Australia. In other words, other countries are more likely to look to Australia for solutions when we have reduced the delay, costs and uncertainty involved in enforcing a patent within Australia.

If the proposal to set up an IP dispute resolution centre was successfully implemented for those enforcing their patent rights within Australia, it could eventually lead to

⁸³ Leahy, A., MacLaren, D., Morgan, D., Weatherall, K., Webster, E., and Yong, J. 'In the Shadow of the China-Australia FTA Negotiations: What Australian Business Thinks About IP', IPRIA working paper 7/2007

other countries setting up similar bodies. ACIP acknowledges that this is a long-term strategy which would be unlikely to take effect for a number of years.

With these issues in mind, ACIP considers that IP Australia should be encouraged to maintain and expand on its internal and external strategies which help Australian patent owners to enforce their patents in other countries. In particular, IP Australia's efforts to help neighbouring countries to improve their patent systems should continue, and the advocacy programs developed recently for China and Japan should be extended to other countries in the region in which Australian companies operate.

Proposal 7:

That IP Australia continue to encourage and assist countries in the region to improve their patent enforcement systems.

Proposal 8:

That IP Australia expand its advocacy program to other countries in the region in which Australian companies do business.

9.3. Alternative and additional strategies

9.3.1. Other courts

In Australia, parties in dispute about a patent right may have their case heard in the Federal Court, or in a State Supreme Court. ACIP believes that parties should also be able to take their case to a lower-tier court if they choose. ACIP has previously recommended extending the jurisdiction of the Federal Magistrates Court to include patents, trade marks and designs (*IP & Federal Magistrates Service Review*)⁸⁴. ACIP's rationale in relation to patents was that the Federal Magistrates Court could prove to be a less intimidating and less expensive prospect for many IP rights owners, thus providing an alternate avenue to those who would not have pursued a claim through existing court processes.

However, the Government decided not to implement ACIP's proposal in relation to patents at that time, noting that patent cases are generally longer in duration than trade mark and design cases, and that the Federal Magistrates Court was intended to be a high volume jurisdiction established to deal with simpler and shorter cases. Instead, it recommended that further consideration be given to this option after the Court had gained experience with trade marks and designs cases.

ACIP recognises that since that time, changes have been made to the way in which general federal law services are delivered, including a decision to restructure the Federal Courts system by merging the Federal Magistrates Court into the Family Court and Federal Court, and consolidating all general federal law matters under the Federal Court. ACIP notes that the restructured Federal Court will have two tiers, with Federal Magistrates operating in the second tier. ACIP therefore suggests that this may be an appropriate time for the Government to reconsider ACIP's previous

⁸⁴ Advisory Council on Intellectual Property, "Should the jurisdiction of the Federal Magistrates Service be extended to include patent, trade mark and design matters?", November 2003.

recommendation, and ensure that the jurisdiction of this lower tier include patent matters.

An issue that was raised frequently in submissions to the *IP & Federal Magistrates Service Review* was the perceived lack of scientific and technical knowledge and expertise in the judiciary and legal representatives of parties; and the fact that cases are often considered to be complex merely because of the technical nature of the matters to be considered:

ACIP is of the opinion that there are less complex cases that could be heard by Federal Magistrates. In addition to this, ACIP recognises that some IP rights are unlikely to generate high monetary returns hence the right owners do not want to incur the cost of bringing an action in the first tier of the Federal Court

ACIP has not been alone in suggesting low cost alternatives for resolving intellectual property disputes, with particular emphasis on Federal Magistrates. Indeed, the Ergas Review⁸⁵ also commented that opportunities should continue to be explored for reducing the costs of resolving the disputes that inevitably arise with respect to patents, and recommended that the Federal Magistrates Court be used as a lower court for the patent system, particularly for matters relating to the Innovation Patent.

Other reviews have suggested improving the case management processes and technical assistance available to judges in courts exercising jurisdiction under the *Patents Act 1990*. Indeed, the ALRC's report on Gene Patenting and Human Health⁸⁶ discussed this issue in section 10, noting that:

“...the Federal Court has already adopted a proactive approach in adapting its practices and procedures in patent cases, and it keeps these matters under regular review. It has an established panel of specialist intellectual property judges, as well as continuing education programs to assist judges in keeping up to date with developments in patent law. These practices were noted favourably in submissions. The Federal Court is also examining ways to facilitate the provision of evidence and the expeditious resolution of patent disputes. The Federal Court's practices and procedures provide a valuable model for other courts exercising jurisdiction under the *Patents Act*. But other courts, too, may have particular practices and procedures that are worthy of consideration by courts that hear and determine patent matters. The ALRC therefore recommends that all courts exercising jurisdiction under the *Patents Act* should continue to develop their practices and procedures for dealing with patent matters with the object of promoting the just, efficient and cost effective resolution of patent disputes.”

and

“The ALRC recognises the concerns that have been identified about the use of assessors, including issues relating to the appropriate role of an assessor in patent proceedings, the costs involved, and potential conflicts of interest. However, the ALRC considers that such issues are capable of being addressed on a case-by-case basis with appropriate cooperation between the court and the parties to the proceedings. One example of such cooperation is the practice of appointing assessors from a joint list presented by the parties—which allows for greater confidence in the expertise and impartiality of the assessor.”

The ALRC went on to recommend that Courts exercising jurisdiction under the *Patents Act 1990* should continue to develop procedures and arrangements to allow

⁸⁵ Intellectual Property and Competition Review Committee, “Review of Intellectual Property legislation under the Competition Principles Agreement”, September 2000.

⁸⁶ ALRC 99, Genes and Ingenuity: Gene Patenting and Human Health.

judges to benefit from the advice of assessors or scientific advisors in litigation involving patents over genetic materials and technologies.

Some stakeholders to the current review suggested that the UK Patents County Court (PCC) could be a suitable model for Australia to adopt. The PCC is an alternative venue to the Patents Court of the High Court for bringing legal cases involving certain matters concerning patents, registered designs and, more recently, trade marks, including Community trade marks and designs.

Established in 1990 by an order made under Section 287 (1) of the *Copyright, Designs and Patents Act 1988*, the intention was that the PCC should be a forum where simpler cases could be dealt with under a cheaper and more streamlined procedure than the High Court. In practice, following the Woolf Reforms of 1998, the streamlined procedure is now available in all courts. One remaining difference however is that cases at the PCC can be argued by solicitors or patent agents, rather than having to be presented by separate qualified barristers (though a patent agent also has right of audience in the Patents Court in appeals from the Patent Office; a patent agent holding a Litigator Certificate has right of audience in any case before the Patents Court and in the court of appeal in appeals from the Patents Court).

Formally, the PCC has the status of a county court; however there is no restriction on the complexity of cases it can hear, nor the levels of damages and costs it can award. Cases can be transferred from the PCC list to be heard by the High Court at the discretion of the PCC; the High Court also routinely transfers cases from its list to the PCC. As with the High Court, appeals from PCC decisions (if leave to appeal is granted) are heard by the Court of Appeal.

Since Autumn 2001, the judge appointed to the PCC has been Judge Michael Fysh QC. Cases are heard by the judge or an appointed deputy judge.⁸⁷

Further information about how the PCC works is available in a paper written by Justice Fysh in February 2003⁸⁸.

If such a court were to be established in Australia, it would require a judge who sits part-time, as it would be unlikely to generate enough work for a full-time judge⁸⁹. The question as to whether such a court would be successful in helping patentees to enforce their patents more quickly and cost-effectively would be very dependent on the judge who was in charge. As a result, ACIP considers that the preferred option is to set up a Patent Tribunal (as outlined in section 9.1.2.2 of this report). If the Government were to reject this suggestion, ACIP's next-best scenario is that the jurisdiction of the lower tier of the Federal Court be expressly stated to include patent matters.

⁸⁷ See http://en.wikipedia.org/wiki/Patents_County_Court

⁸⁸ Fysh, Michael QC, SC, Judge, Patents County Court, London, "The Work of the Patents County Court", IP Centre, St Peter's College, Oxford, 11 February 2003

⁸⁹ Justice Fysh is assigned part-time to the UK Patents County Court, with the rest of his time on the High Court, also hearing IP matters.

Proposal 9:

That the jurisdiction of the lower tier of the Federal Court be expressly stated to include patent matters.

9.3.2. Customs

A number of submissions agreed with the concept that there should be legislative provisions relating to customs seizure of imported good which infringe patents. While some submissions recognised that there are practical difficulties associated with this proposal, they felt that they could be overcome:

Carden Industries

...there should be legislative provisions relating to the customs seizure and destruction of goods which infringe patents.

FICPI

...we recognise that, practically speaking, it would be difficult for Customs to operate such a seizure program...it would be necessary for a Customs Officer to be forewarned of a likely shipment of infringing product. From time to time this could occur and the capacity of Customs to make a seizure in these circumstances would be of benefit and would be supported by FICPI Australia....

IPTA

While it is acknowledged that patent infringement may be more difficult to identify, in principle, customs seizure provisions should be available.

Australian Customs had significant concerns with this proposal, and outlined them in some detail in their submission. The main concerns related to a lack of technical expertise and knowledge amongst Customs staff to enable them to identify and enforce patent rights at the border, a lack of resources given other priorities such as narcotics and counter-terrorism, the space and expense consequences of detaining large quantities of goods for an extended period, the need for an established procedure for the disposal of detained/seized goods, and whether the right holder would be responsible for any seizure costs.

It should also be noted that there is an existing remedy (although it seems to be rarely used for patents), known as an Anton Piller order. This is a special type of injunction which can be granted by a court. Such orders can be granted when the court is persuaded that there is a real risk that infringing items and evidence of infringing activities will be destroyed if there is advance notice. The court, in addition to granting an injunction against the defendant, also orders that the plaintiff be allowed to enter premises to look for, inspect and take away any infringing items and evidence of infringing acts.

Any person or organisation refusing to obey the order will be in contempt of court and risks imprisonment. The court can discharge the order after it has been complied with. If the order is discharged, all items and documents seized must be returned.

Anton Piller orders are not granted lightly. They are only available where there is clear evidence that there is incriminating evidence which might be destroyed without the element of surprise. Such an order can be obtained in a matter of hours.⁹⁰

ACIP is inclined to agree that there are many practical difficulties for this proposal to be viable in all cases. The requirement for Customs officials to have sufficient technical expertise in order to determine whether infringement of a patent has occurred seems, in particular, to be insurmountable.

Nevertheless, some of the submissions suggested a compromise solution – that while it is not possible for Customs to examine all goods being brought into the country, they could be empowered to make a seizure when forewarned of a likely shipment of infringing product. These patent seizure powers for Customs could be based on the notice system for trade marks, and patent owners would be liable for all costs. The product could be released to the importer if the patent holder did not bring proceedings for infringement within a reasonable time (say 30 days) of being advised by Customs of the seizure.

This solution appears to overcome many of the difficulties raised by Customs – including lack of technical expertise and resources, and the space and expense issues associated with seizing large quantities of goods. ACIP also considers that it is reasonable that the right holder be responsible for any seizure and storage costs, and that they could be recovered in later court proceedings.

Proposal 10:

That legislation be introduced to empower Australian Customs officials to seize goods at the border where the rights holder has forewarned them of a shipment of infringing product.

9.3.3. Criminal sanctions

As discussed earlier, criminal sanctions for patent infringement are available in some other jurisdictions. ACIP understands that the criminal procedure is rarely used in these countries, and that its presence acts as a deterrent for blatant infringers.

A number of submissions were strongly in favour of introducing criminal sanctions in Australia in the case of wilful infringement:

Carden Industries

This to me is one of the most important issues...patent infringers are stealing and in some cases the amounts of potential income stolen are considerable...Criminal charges and even possible jail for wilful...infringement...would stop a lot potential infringers...

AMPICTA

In the case of wilful infringement than criminal penalties may be appropriate...US patent litigation model is an example of how wilful or punitive damage can be effectively used to prevent or limit infringement. However in the US system, a defence to wilful infringement can be provided by obtaining a formal written opinion from a US attorney.

⁹⁰ see <http://www.unimelb.edu.au/copyright/information/fastfind/antonpillar.html>

However, others argued that it would be inappropriate to apply criminal sanctions when even the experts often find it difficult to determine whether a patent claim is valid and infringed. They supported the current arrangements relating to exemplary damages:

FICPI

FICPI Australia welcomes the changes to the Patents Act which now enable patentees to secure exemplary damages for wilful or flagrant infringement. We consider these measures more appropriate for dealing with flagrant infringement than criminal sanctions. The issues of validity and infringement are generally much more complex in patent matters than they are in cases of copyright or trade mark infringement where criminal sanctions currently exist for wilful infringement.

Law Council of Australia

IPC considers that criminal sanctions for patent infringement are unnecessary...In countries where there are criminal sanctions, they are rarely used...Patentees should not lose control over processes involving challenges to the ownership and validity of their patents.

IPTA

...the sanctions for infringement are appropriate at present...considerable caution should be exercised before generally criminalizing infringements of IP rights and patents in particular...The recourse to criminal action may chill legitimate competition and increase costs to business and consumers.

Luigi Palombi

Given 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...[has the] potential for enormous injustices...

ACIP has considered all the arguments carefully, and notes that there are a number of potential difficulties with the introduction of criminal sanctions for patent infringement.

Criminal sanctions could create a barrier to competition and innovation if their presence resulted in innovators steering a wider course than necessary around patented technologies, for fear of criminal prosecution. The presence of such sanctions could also be open to abuse by patent owners wanting to intimidate others from operating in a similar arena.

Patent rights also differ from copyright and trade marks (which presently have criminal sanctions), because the question of whether a patent is valid, or has been infringed, is often *prima facie* not as clear cut. In addition to this, there would be difficulties in defining the scope of infringement that should be subject to criminal sanctions, as ACIP considers that such sanctions would only be appropriate for the most flagrant, repeated and commercial scale infringements.

Finally, while ACIP is attracted by the potential for criminal sanctions to act as a deterrent to blatant infringers, and expects that such sanctions, if introduced, would be rarely used, it is still a measure with potentially serious consequences, including the possibility of a custodial sentence. This becomes even more of a concern when it is possible that the patent could be subsequently found to be invalid.

None of these difficulties are insurmountable, however ACIP has not received any evidence to date that flagrant, commercial scale infringement is a significant problem.

Rather, as discussed elsewhere in this report, the problem seems to be that costs and delays in the patent enforcement process are preventing patent owners from taking full advantage of their patent rights during the term of the patent.

Given the difficulties, challenges and concerns expressed in relation to criminal sanctions, ACIP's current view is that it would not be appropriate to introduce them at the present time. It would be preferable to proceed with the other measures that are proposed in this report, and monitor their effectiveness. ACIP considers that once the other measures have been implemented and in place for a suitable time, the question of whether to introduce criminal sanctions for patent infringement could once again be examined.

9.3.4. Opposition to patent grant

The current pre-grant opposition procedure occurs in the period between when IP Australia accepts the patent application as meeting the examination requirements for the grant of a patent, and when a patent is sealed (that is, granted). The procedure enables interested persons to place before the Commissioner of Patents evidence of lack of newness or inventiveness which may or may not have been considered when the application was examined, and to argue other grounds of invalidity. The process also allows for ownership of the invention to be argued, if there are allegations that the invention has been obtained from another person.

When an opposition is filed, the patent applicant and the opponent each have an opportunity to submit evidence. Under current practice the evidence submitted generally approaches the standard required in the Federal Court. Subsequently, a hearing is held before the Commissioner of Patents, who then makes a decision on whether or not the opposition succeeds. If the opposition is successful, the patent applicant is usually given an opportunity to amend their patent specification to overcome the problems identified in the Commissioner's decision. If either party disagrees with the Commissioner's decision, they can file an appeal (depending on the nature of the decision) to the Federal Court of Australia, or to the Administrative Appeals Tribunal.

The opposition process is usually the first time that a third party can challenge the grant of a patent and the first time the patent applicant has to defend its rights. In public consultations ACIP received some feedback from respondents that pre-grant oppositions can be a source of delay and cost in patent enforcement. A delay in grant of a patent through opposition does not normally affect the ability of the patent applicant to take a product to market. That is, there is no requirement for a patent applicant to await grant of a patent before commercialising the invention. Any delay in grant does, however, correspondingly delay the patentee's ability to commence proceedings for infringement of the patent. The legislation seeks to address this by including provisions for the award of retrospective damages (subject to certain conditions) in respect of infringement occurring prior to grant of a patent.

In some cases the patent owner's ability to commercialise is arguably affected by a delay in grant; such as, for example, where a potential commercialisation partner takes the view that the outcome of the patent application process is determinative of their commercial interest in the invention. Frequently these issues are addressed by appropriate licensing terms that relate to the outcome of the patent application process.

A criticism of the current pre-grant system is the possibility of the process being open to abuse by the party that will benefit most from delayed proceedings. Whilst there are exceptions, on average pre-grant oppositions take up to 3 years to complete⁹¹. Delays in patent opposition can present enforcement difficulties for patent owners as these proceedings are sometimes tactically and intentionally used by opponents to both hold up the possibility of an infringement action and to draw out the process at greater expense for the other party⁹². In June 2009, IP Australia released a consultation paper⁹³ proposing reforms to prevent the tactical use of opposition proceedings. Submissions to this paper were due on 17 August 2009. IP Australia will consider the submissions and then make recommendations to Government on the way forward.

ACIP has received considerable anecdotal evidence that delays in the current opposition system are facilitated by repeated requests for extensions of time, some of which have no real merit. Such delays in pre-grant opposition can mean that patent owners are tied up in opposition proceedings, and without a granted patent they cannot take action against known infringers.

Law Council of Australia:

The average pre-grant opposition of three years is highly undesirable to the effective life of the patent. The ability to enforce the patent within a shorter period of time would certainly assist patent owners to better enforce their patent rights.

ACIP has also received submissions referring to the costs involved in the patent opposition process.

FICPI

It is to be noted that pre-grant opposition is rarely recommended by patent attorneys. Some of the reasons for this are: the rarity of total success; the opportunity that the system gives the applicant to strengthen the patent application by amendment; the opportunity that the system gives the applicant to file divisional applications; and *the considerable cost (especially compared to opposition costs in Europe). The main reason for the latter concern is the cost of establishing evidence on inventive step. (emphasis added)*

IPTA

An administrative opposition process, *certain excessive fee issues aside*, has the benefit of lesser costs than litigation in most cases. *(emphasis added)*

Confidential submission

Clearly to fund the defence of a patent opposition, (including using barristers and patent attorney's for many months in preparation), would suggest that the formulae for determining costs in oppositions in Australia is simply wrong.

Even though the cost of opposing a patent is lower than seeking revocation in the Federal Court, it is still an expensive exercise as opposition proceedings can routinely cost up to \$50,000 or more. Such expense is incurred as a result of the extensive evidence required and by the fact that participants can often treat oppositions as a 'mini trial' or 'dry run' of the case that will ultimately be heard in court. Patent oppositions are usually handled by patent attorneys or barristers.

91 Patent and Examination Hearings Group, IP Australia, 2006.

92 Some patentees use the option of filing a divisional innovation patent for enforcement purposes. Such innovation patents are granted promptly, without the opportunity for opposition, and quickly place the patent owner in a position to enforce their rights.

93 "Resolving Patent Opposition Proceedings Faster", see http://www.ipaustralia.gov.au/pdfs/news/resolving_patent_oppositions_faster.pdf

Post-grant opposition has been examined under this review as a way of potentially overcoming the financial and temporal problems that currently occur. Post-grant opposition permits opponents to file an objection to the registration of a patent only *after* it is granted (usually within a specified period of time).

In the Issues paper, feedback was sought on two key questions: whether a post-grant opposition system would offer greater benefits over the existing system of pre-grant opposition; and whether such a system would help patent owners better enforce their patent rights.

As discussed earlier in this report, Australia is in the minority in terms of employing a pre-grant opposition system as most OECD countries employ a post-grant system only⁹⁴. The current usage of the pre-grant opposition system in Australia as a percentage of patents accepted is comparatively quite small. It is unclear whether this is related to the process or due to other factors such as market size or concerns of the kind raised by FICPI above.

One view clearly shared by stakeholders was that it was undesirable to have both a pre and post-grant opposition system. However, the submissions were divided on the benefits of post-grant opposition compared to the current pre-grant procedure:

IPTA:

IPTA supports availability of an opposition process. IPTA also recognizes the longstanding principle that plainly invalid patents should not proceed to grant. Enforcement of plainly invalid patents can cause expense and economic dis-benefits. Enforcement of such patents can also undermine confidence in Australia's IP system. Pre-grant opposition has addressed this risk... On balance, a pre-grant (but post acceptance) opposition process is to be preferred to a post-grant opposition process.

Law Council of Australia:

In principle, IPC supports a post-grant opposition process, on the assumption that the pre-grant opposition process would be dropped, and that a time limit of 9 months from grant applies to commencement of the opposition process.

FICPI

FICPI Australia is not opposed to a post-grant opposition procedure being adopted for Australia, in place of the current pre-grant procedure. However, it is not seen that any greater benefits would be offered by adopting such a system, except that it would accord more closely with current International thinking.

In consultations, some stakeholders were concerned that in a post-grant system the opposition procedure could be avoided altogether, therefore replacing the lower cost opposition proceeding with a revocation action in a prescribed court and thus increasing the cost of enforcement to patent owners. However, some respondents did not view this as a disadvantage, for example;

LCA

it is not a criticism of the post-grant system that post-grant opposition would be avoided by going straight to a prescribed court. On the contrary, if that occurs, it cuts a corner, which is desirable. Not only is the opposition step avoided but also a potential appeal of the Commissioner's decision to the Federal Court (see section 60 of the Act).

⁹⁴ Whilst most OECD countries have what can be described as post-grant system of opposition the form of such systems are not necessarily similar to each other.

Medicines Australia

An opponent would have the opportunity to oppose the grant within the prescribed post-grant opposition period. Alternatively, an opponent could completely avoid post-grant opposition and commence revocation proceedings in a prescribed Court. As has been noted by IPC, revocation proceedings permit challenges on wider grounds of validity such as fraud, false suggestion or misrepresentation than are currently available under the opposition system.

Medicines Australia would not support the making of opposition proceedings compulsory before revocation proceedings are commenced. This would only cause an unnecessary doubling up of opposition proceedings and court proceedings in which identical challenges to the validity of a patent may be made. It would also not relieve the current delay experienced under the pre-grant system.

In addition to other factors, some respondents did not support a post-grant opposition process on the philosophical ground that a post-grant opposition system may enable invalid patents to be granted, thereby impacting on certainty and confidence in granted patents. The Commissioner of Patents has a duty to prevent an application from proceeding to sealing where he or she has become aware of facts which would make the resulting patent invalid. The likelihood of this occurring is reduced if pre-grant opposition is abolished, because such facts often arise in the form of evidence lodged during the course of opposition proceedings.

ACIP is concerned with the perception that a post-grant opposition may convey to first time patent applicants. Having gone through a lengthy examination process that does not provide for the possibility of pre-grant opposition, patent owners may believe that the administrative process has ended with the grant of their patent, when in fact it still may be challenged at the patent office (post-grant). ACIP also sympathises with the argument that ideally patents should not be granted if they are invalid. The problem with post-grant opposition is that issues which may affect the validity of a patent can only be addressed in opposition after grant (obviously pre-grant opposition avoids this dilemma). This may adversely affect the confidence that innovators, inventors and investors have in granted patents.

It appears that changing to a post-grant opposition process would not address the current problems. Whilst a post-grant opposition regime would result in an earlier grant and the ability to commence infringement proceedings, any opposition procedure still delays the final outcome. That is, the patent rights would still be subject to challenge before they can be enforced. Either any infringement determination by a court would have to be delayed until the opposition is determined by IP Australia or the opposition would have to be combined with an infringement action in the Federal Court. In the former situation there is no change to delay and cost unless the procedure is changed; in the latter situation the opposition becomes a costly Federal Court matter.

ACIP also has concerns about the impact that a change to a post-grant opposition regime would have on the balance of rights and interests between potential patentees and third parties exploiting technology in the same field. Under a pre-grant system third parties with an interest in the technology for which a patent is sought by another have the opportunity to question the validity and scope of the patent before the patent owner can take action against them. A change to post-grant opposition results in a patentee being able to commence proceedings in the Federal Court before any such concerns can be raised. It can be argued that this places patentees with strong

financial resources in a potentially dominating position. If this concern is addressed by ensuring that the post-grant opposition is conducted prior to the commencement of any infringement proceedings then there is effectively no change from the current system.

ACIP is therefore reluctant, on the basis of the information available to it, and the limited analysis carried out to date, to recommend such a change at this time. However, there is persuasive evidence that the pre-grant opposition process in Australia would benefit from a more detailed review. While pre-grant patent enforcement is outside the scope of the current review, such an investigation could consider how best to reduce time delays and costs. Such a review could also use benchmarks, such as the time for resolution of opposition in comparable countries, to identify whether there is any convincing reason for change from the pre-grant opposition process.

The benefit or detriment of moving to a system of post-grant opposition would be highly dependant on the type of system and case management process adopted. ACIP believes that patent enforcement problems associated with pre-grant opposition could be addressed through legislative changes which tighten opposition time frames and the criteria for accepting repeated extensions of time. Such reforms are likely to have the same effect regardless of whether patent oppositions are pre- or post-grant.

ACIP has found no compelling reason to justify changing the current system from a pre-grant opposition process to a post-grant opposition process. This is partly because consideration of pre-grant opposition is outside the scope of the current review, and ACIP has not therefore obtained sufficient data/information to give full consideration to the issues involved.

Proposal 11:

That IP Australia continue to monitor and review the opposition processes both locally and abroad to identify whether there is any convincing reason for change from the pre-grant opposition process.

Appendix A – List of submissions

A list of those who made submissions and participated in consultations with ACIP:

Australian Manufacturers' Patents, Industrial Designs, Copyright and Trade Mark Association (AMPICTA)

Intellectual Property Research Institute of Australia (IPRIA)

Mr Gary Lea, Senior Lecturer in Business Law, UNSW @ ADFA School of Business

Mr Luigi Palombi, Visiting Fellow, Australian National University

Insurance Choice Pty Ltd

Australian Commonwealth Scientific and Research Organization (CSIRO)

Carden Industries Pty Ltd

IP Strategies

Law Council of Australia

The Australian Federation of Intellectual Property Attorneys (FICPI Australia)

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA)

Medicines Australia

Dr Dimitrios G Eliades, Barrister

Australian Customs Service

Two confidential submissions were also received.