



**Australian Government**

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**Advisory Council on Intellectual Property**

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# **Post-Grant Patent Enforcement Strategies**

## **ISSUES PAPER**

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

**Comments should be received no later than 20 February 2007**

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## Abbreviations

ACIP	Advisory Council on Intellectual Property
ADR	Alternative Dispute Resolution
ALRC	Australian Law Reform Commission
EPO	European Patent Office
FTA	Free Trade Agreement
IP	Intellectual Property
IPAC	Intellectual Property Advisory Committee
IPRIA	Intellectual Property Research Institute of Australia
PCT	Patent Cooperation Treaty
SME	Small to Medium Enterprise
TRIPS	Trade Related Aspects of Intellectual Property
UK	United Kingdom
UKPO	United Kingdom Patents Office
US	United States
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

## Overview

The Advisory Council on Intellectual Property (ACIP) is an independent body established to provide advice to the Minister for Industry, Tourism and Resources and IP Australia on matters of policy and administration. 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. The Hon Bob Baldwin, Parliamentary Secretary to the Minister for Industry, Tourism and Resources has responsibility for intellectual property matters within the portfolio. IP Australia is the federal agency responsible for administering the patent, trade mark, design and plant breeder's right systems.

Patents are an integral part of government programs aimed at encouraging innovation and wealth production in society. They complement other means such as trade secrets and speed to market by which businesses protect their competitive advantage in innovation. Over recent years there have been repeated calls from patent owners concerning the difficulties associated with enforcing patent rights after they have been granted.

The enforcement of patents can be perceived as a time consuming, expensive, and complicated process. This paper explores post-grant patent enforcement strategies that may potentially assist patent owners to protect their patent rights. Some of the strategies outlined in this paper will be more beneficial to certain types of patent owners, for example small to medium enterprises (SME's). Other strategies will be geared more for domestic enforcement rather than enforcement in a foreign jurisdiction. However, some of the strategies may be applicable to both domestic and overseas patent enforcement. The rationale for exploring enforcement strategies is ultimately to ensure that patents are not under utilised. If enforcement difficulties are causing sub-optimal use of patents by users of the innovation system this may adversely affect both the innovation system and the Australian economy.

Unfortunately there has been little systematic study of patent enforcement in Australia at the post-grant stage. More recent government reviews on IP enforcement have tended to focus on pre-grant processes that strengthen patent rights. The logic behind such reviews is that if the tests for patentability are raised then patent owners will have stronger patent rights that are less susceptible to actions for invalidity or infringement. Many of the recommendations made in recent reviews have not been in force long or are yet to be endorsed by the Government, therefore it may be premature to judge their effectiveness in terms of patent enforcement.

In response to the increasing concerns of SMEs in this area, Parliamentary Secretary Baldwin has 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.*

The overall aim of this paper is to gather evidence, identify stakeholder needs, and to stimulate public debate on patent enforcement issues, in addition to providing a basis for discussion for interested parties. ACIP seeks written submissions on any matters or issues that respondents feel are relevant to the inquiry including issues that are not identified in this paper. Any empirical information or data would also be particularly valuable.

Written submissions may be made in electronic form or in hard copy and should be provided to the address below. Unless marked confidential, submissions may be made public and placed on the ACIP website. ACIP's preference is for submissions to be made public; confidentiality should be reserved to material where disclosure would be genuinely prejudicial to the party making the submission.

When ACIP has received all written submissions and completed consultations with interested parties it will prepare a report which they expect to submit to Parliamentary Secretary Baldwin in late 2007. It is expected that consultations will be held in March/April 2007. The closing date for both **written submissions** and expressions of interest in taking part in **consultations** should be received no later than **20 February 2007**.

Please address your advice, comments, written submissions and any queries to:

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## **Introduction**

A strong intellectual property (IP) system is central to building a strong national innovation system which in turn plays an important role in the Australian economy. The emergence of knowledge based economies and globalisation has greatly increased the importance of patents. Patents promote research and development through helping to better capture returns from commercialising Australian ideas and products. However, in order to capture these returns it is vital that patents can be enforced in an expedient and cost efficient manner. The costs of an ineffective enforcement system are not only borne by the commercial enterprises engaged in the dispute, but the costs are also borne by society at large. Inaccessible or ineffective patent enforcement is likely to result in lower levels of innovation activity, a reduced transfer of technology and a consequent reduction in economic growth.

The movement towards harmonization of intellectual property laws internationally has highlighted the growing emphasis on the need for effective patent enforcement strategies. The effective protection and management of patents is an integral part in both successfully commercialising innovation and contributing to national economic growth. If owners of patents cannot enforce their rights in a speedy and cost efficient manner, then the IP system is significantly devalued. Entrepreneurs will only invest in developing innovations protected by patents if they are confident about the rights they hold. This confidence depends on having accessible and modern enforcement strategies and mechanisms which will provide more certainty about patent enforcement outcomes and therefore provide a stronger basis for patent owners to make commercial decisions on longer term investment in IP.

## **General issues**

One of the main issues associated with the difficulty of patent enforcement are the prohibitive costs. Patent litigation is usually an expensive and lengthy process and the amount of evidence required to allow the court to assess the various issues is legendary<sup>1</sup>. Whilst many patent disputes are settled without resulting to outright litigation, in some cases litigation is unavoidable. A key reason for this is that alleged infringers often counterclaim for the revocation of the disputed patent, on the grounds that the grant was invalid. Anecdotal evidence suggests that a source of difficulty in patent litigation is the tactics used by some larger businesses to delay court proceedings to the point where the smaller party finds it impossible to continue. The result of the court action is then determined by which party had the greater financial strength, rather than by which party was in the right. This practice can lower the confidence in the patent system and limit the benefits of patent protection to those who have vast financial resources.

A lack of knowledge and experience with intellectual property, particularly for new users of the patent system, is also a persistently recurring problem in Australia. Despite educational and awareness programs there are still some commonly held misconceptions about patent enforcement. The most common is where the responsibility for enforcement lies. Many patent owners mistakenly believe that IP

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<sup>1</sup> McKeough, J., *Intellectual Property in Australia* 2<sup>nd</sup> Ed, Butterworths, 1997, pg 329.

Australia is responsible for the enforcement of their patent. This could be because they have to pay application, examination and registration fees to IP Australia in addition to a significant amount of money (approximately \$5,000-\$10,000) for the services of a patent attorney. Given this high cost patent owners can sometimes be inclined to believe that such fees also include the cost of policing their patent. Such misconceptions often lead to patent owners being unprepared to resist claims about the invalidity of their patent rights or to enforce their rights.

Another source of difficulty for Australian patent owners comes from enforcing patent rights when they are being infringed in other countries. This adds not only to the expense, but also to the complexity of any enforcement proceedings. Different countries use different approaches to almost all the issues that the litigants need to address. If a patent owner has to take action simultaneously in a number of countries, the expense can be considerable and the process can be lengthy. Despite the global movement for the harmonization of patent laws, enforcing one's patent right in one country does not guarantee a successful outcome in other countries.

The nature of patent rights can also explain some of the difficulties in enforcing such rights. Patents have been described as probabilistic in nature, i.e. once granted a patent does not provide any guarantee of validity if challenged in the courts. To enforce property rights one must prove they have such rights and that these rights are being infringed by certain acts. Unlike physical property rights, patent rights are not so easily delineated and therefore a degree of uncertainty is inevitable. Patents have been described as probabilistic because they more accurately represent a probability that the owner has a right to exclude competitors<sup>2</sup>.

If the enforcement of patents is to be effective, it should be speedy, inexpensive and reasonably predictable. Ideally patent enforcement strategies should ensure that the outcomes of enforcement actions are fair, just and independent of the financial strength of the parties to the dispute. Complex, inefficient and costly patent enforcement procedures impose a burden on society, given the opportunity costs of tying up highly skilled, creative people and other resources in a largely unproductive activity. It is for this reason that enforcement strategies must be efficient and effective in order to minimise the cost and delay to patent owners.

In this paper there are a number of issues raised that can explain the problems experienced by patent owners when seeking to enforce their patent rights. ACIP welcomes any comments and suggestions on the post-grant strategies detailed in this paper and any other possible strategies that will reduce the burden on patent owners in the event they become entangled in patent enforcement.

## Relevant legislation

This paper is essentially concerned with the *Patents Act 1990* and the regulations relevant to this legislation. The main purpose of a patent system is to stimulate industrial invention and innovation by granting limited monopoly rights to inventors

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<sup>2</sup> Weatherall, K.G. and Jensen, P.H. (2005). "An empirical investigation into patent enforcement in Australian courts", *Federal Law Review* 33(2), pg 250.

in return for full disclosure to the public of the invention, thereby increasing public availability of information on new technology.

Under current Australian patent law (*Patents Act 1990*, associated regulations and case 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. These requirements are often characterised as part of the bargain (*quid pro quo*) between the applicant and society. In return for the applicant's limited exclusive right, society gains through the disclosure of the invention, which allows others to build on the invention or work around it during the exclusion period, and to use it directly after the exclusion period expires.

A patent gives the patent owners 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. 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.

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.

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.

### ***International treaty obligations***

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:

- Paris Convention
- Patent Cooperation Treaty (PCT)
- Budapest Treaty
- Strasbourg Agreement
- Trade-Related Aspects of Intellectual Property Rights (TRIPS)

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), requires the members of the WTO to ensure that effective enforcement procedures are available to patent owners. The Agreement itself is an attempt to narrow the gaps in the way IP rights are protected around the world, and to bring them under common international rules.

Article 41 (1) of the TRIPS Agreement sets out general principles on enforcement, insisting on the effectiveness of enforcement action including expeditious remedies to prevent infringement and further remedies which constitute an effective deterrent to further infringement. Article 41 (2) requires that any enforcement procedures be fair and equitable and not unnecessarily complicated, costly or involving unreasonable 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 proceeding will have an opportunity for a review by a judicial authority of final administrative decisions. The full text of Article 41 of the TRIPS Agreement is at **Attachment 1**.

### ***Different types of patent enforcement action***

For the purposes of this paper, the enforcement of patents involves either the owner taking action to compel others to respect the patent right; or an opponent taking action to challenge the validity or scope of the patent right.

The 'enforcement' of patent rights is often thought to be synonymous with litigation; however, it encompasses a range of actions. There are a number of legal, administrative and commercial alternatives which can be used to enforce or defend patents or to test their validity. If a patent owner decides to pursue enforcement, they may employ a variety of means to do so, including commercial actions and legal proceedings. 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 possibly consider alternate dispute resolution mechanisms, such as mediation. However, the most common approach used for patent infringement is civil proceedings.

The apparent enforcement difficulties faced by patent owners can depend on what the action relates to, for example whether the enforcement action:

- is initiated by the applicant/owner, or a third party;
- is pre- or post-grant;
- relates to the validity of the patent;
- relates to the scope of the patent;
- relates to the ownership of the patent;
- concerns the alleged infringement of the patent;

- relates to licensing issues;
- includes a combination of the above; and
- is based in Australia, overseas or both.

### ***Current enforcement issues***

While the probability of a patent becoming subject to enforcement action is relatively low, the consequences for the owners of patents that do become subject to legal action can be severe. This means there is a need to find ways of making patent enforcement less of an issue. Generally, this may be done in two ways. One is to reduce the likelihood that businesses will infringe existing rights or have to take action against other businesses infringing their rights. The other is to make it cheaper, simpler and quicker to get fair and appropriate resolution for any dispute that may arise. As cost is such a prevalent issue relating to patent enforcement, particular attention to the needs of small businesses that lack the financial or managerial resources of larger businesses is required.

The context in which Australia's enforcement system operates is very broad. It includes existing government policies; international obligations; the legal system; court procedures; the use of alternative dispute resolution mechanisms; and the commercial and IP management strategies that businesses decide to implement. The enforcement of patents must therefore be examined in a broad, commercial and administrative context, not just a narrow legal one.

#### **Cost of enforcement**

The most recent reference to the cost of enforcement in Australia is a 1999 report published by the Australian Law Reform Commission (ALRC). This report 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<sup>3</sup>.

The cost of patent enforcement represents a major obstacle for many patent owners seeking to protect their rights and for those who may seek to test the validity of those rights. Legal representation is a significant factor in the high cost of enforcement. There have been many cases of patent owners being deterred from pursuing litigation because of the significant costs involved relative to the expected returns from the patented invention. The prohibitive cost of enforcement through the court system can represent many years profit derived from the patent and can outweigh any expected cost recovery from damages or loss of profits. If the potential returns from patent rights do not justify the high costs of enforcing that right this may stifle innovation growth in Australia. It is for this reason that robust enforcement strategies/systems are needed in order to preserve both the confidence in the patent system and to protect the value of patent rights.

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<sup>3</sup> [http://www.austlii.edu.au/other/alrc/publications/dp/62/consultant\\_rept7/report7.rtf](http://www.austlii.edu.au/other/alrc/publications/dp/62/consultant_rept7/report7.rtf)

Court fees are a relatively minor cost by comparison to the cost of legal representation for patent enforcement matters. High legal costs can be explained by the need to obtain specialised legal advice, and by the significant resources needed in gathering technical evidence and obtaining expensive expert witnesses. Enforcement actions require that judges decide the case on the issues brought before them by the parties to the dispute as they do not, themselves, investigate the issues of the case. This increases costs for clients as the lawyers are responsible for the onerous task of providing to the court all the relevant information on which the clients rely, and given the complexity of some patent disputes this is quite often voluminous.

An alternative analysis is that patent owners should view the high cost of litigation positively because it forces parties to look for different ways to solve their disagreements. This will often mean they turn away from resource-depleting legal wrangles at a relatively early stage and come to commercially acceptable settlements such as licensing agreements etc.

### Financial capacity

A lack of financial capacity can also 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 is particularly so where their opponent has vast financial capacity and has adopted the tactic of making the dispute lengthy and expensive in an effort to exhaust the patent owner's financial resources. Such tactics often result in the patent owner capitulating to the demands of their opponent and withdrawing from the proceedings. The tactic of drawing out a dispute is not particular to patent matters or even IP matters as it is often used in commercial disputes and appears to be a product of the adversarial nature of the Australian legal system.

Inventors seeking to bring their new invention to market will often follow a common course of events whereby they invest in research and development, obtain a patent, raise capital and reach the commercialisation stage of their business plan. However, commercialisation is often the point where patent owners, particularly SMEs, are in a vulnerable position because this is the point in time they can least afford to protect their patent rights. Many patent owners do not have plans in place in the event they have to enforce or defend their patent. This could be explained by the fact that a patent owner's resources are often committed to getting their invention to market and therefore they are caught unprepared for an enforcement action. However, even with planning and reasonable financial resources, this can still prove to be fruitless as successful litigation frequently depends on the financial resources of the opponent. Whilst there are considerable benefits in avoiding court action, an out of court settlement might be less likely if the owner of the patent is a small enterprise but the alleged infringer can easily carry the costs of litigation.

### Delay

The combination of time delays coupled with high costs can be powerful factors in deciding the outcome of patent disputes - the more protracted the dispute the greater the cost to parties. Deliberately delaying the dispute process can work to the commercial advantage of the party with the greater financial strength. Time delays are inextricably linked to costs as expert witnesses and IP lawyers charge by the hour. There have been some arguments that high legal costs and delays are a result of over-

pleading. The practice of over-pleading is a significant problem for judges who as a result must sift through huge piles of evidence in order to determine issues of relevance for the case. It is generally thought that over-pleading occurs from the concern barristers and solicitors have that their client could sue them if they do not pursue all possible actions. Another possible explanation for delay in enforcement actions is that, in general, lawyers are paid by the hour, so an expeditious outcome for clients may not be a high priority.<sup>4</sup> Instances of delay can also arise by virtue of the patent system itself. For example, patent owners cannot institute an infringement action until IP Australia grants the patent which may be tied up in pre-grant opposition proceedings.

### Lack of knowledge and uncertainty

The call for better education and awareness of patent issues in the Australian business community is a recurring one. Businesses can run the risk of becoming subject to an infringement action or being caught unprepared to enforce their patent simply due to ignorance of this area of IP. The lack of knowledge relating to patent enforcement can be a key source of anxiety and a significant factor in the uncertainty experienced by many patent owners. This uncertainty may be caused by a number of factors such as:

- the probabilistic nature of patent rights;
- a low level of knowledge about what patent rights entail and how to manage intellectual property;
- the cost and time involved in pursuing enforcement in the courts;
- the high degree of uncertainty of outcome in legal proceedings; and
- a fear that parties with more resources can abuse the system and force an unfair outcome on smaller parties.

Levels of uncertainty and lack of knowledge can be gauged by the commonly held but erroneous belief that IP Australia is responsible for enforcing patents on behalf of individuals and businesses. Despite IP Australia increasing awareness activities in recent years, some patent owners still appear ill informed of their responsibility to enforce their own patent once granted. A significant difficulty with properly informing patent owners of their enforcement responsibilities is cutting through the large amount of information they have to obtain and master to set up their business in the first place.

Knowledge of the intellectual property system is generally low in the Australian community. Business courses may deal with the technical aspects of IP but devote limited time to the use of patents in commercial endeavors. For example, people are seldom aware of matters such as patent insurance to cover infringement actions. There is a growing need for the business community to better understand the commercial implications of being granted a patent at an early stage of their business plan. In recent times, the central theme of business IP education and awareness programs appears to be on patentability i.e. the legislative tests one must meet in order

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<sup>4</sup> Weatherall, K.G. and Jensen, P.H. (2005). “An empirical investigation into patent enforcement in Australian courts”, *Federal Law Review* 33(2), pg 239-286. This study documented the court hours spent on patent enforcement cases for the period 1997-2003. The delay experienced by patent owners was thought to be caused by a number of issues.

to obtain a patent. Such emphasis can be explained by the inherent complexity of patent law. However, as a concept, 'complexity' is relative to the knowledge and experience of the people involved. What may appear to be complex to some may not appear complex to those who have had previous experience or a good level of knowledge in this subject area. Historically little emphasis has been placed on post-grant assistance or care by granting agencies although IP offices around the world appear to be clarifying their role in this area.

Obtaining a patent is only one step in a long process to reach commercialisation. Patent owners must obtain sufficient skills in the commercial management of their patent rights. Anecdotal evidence thus far indicates that there may be a need to realign awareness programs to focus more on how to use, monitor and enforce patents in a commercial context. If patent owners are empowered with knowledge about their responsibilities and strategies to enforce their patent they will have increased certainty and can better prepare for the future.

### Overseas enforcement difficulties

The changing global economy has opened up new markets which has resulted in the rapid growth in the number of patents filed in overseas jurisdictions by Australian businesses. While a number of Australian companies have been very successful in exploiting their patents in overseas markets, it is clear more needs to be done to improve the level of awareness and knowledge of the international IP systems used in various countries.

Securing patents overseas can be very costly. For example, seeking patent protection in major markets internationally can cost well in excess of \$100,000. Should the need for enforcement arise, this can involve further significant costs. For example, in the United States, litigation costs of US\$1 million or more are not uncommon<sup>5</sup>. Variations in the judicial and other enforcement systems can also add another layer of complexity. Impediments to patent enforcement overseas can include:

- language differences including the cost of interpretation;
- foreign patent costs;
- limited company or inventor resources;
- limited foreign patent knowledge;
- need for local advice;
- differences in foreign patent systems;
- challenging business climate;
- weak patent enforcement regime in some countries.

As some IP offices around the world are still developing and seeking to attain international standards of quality, the timeliness and effectiveness of their patent systems may be hindered by a lack of resources. To assist patent owners to enforce their rights more effectively, Australia has pursued two broad but related fronts. Firstly, it has actively participated in a range of international fora to help develop the world's intellectual property systems in order to make them more effective.

<sup>5</sup> Department of Industry, Science and Resources *Submission to the Intellectual Property and Competition Review*, November, 1999, pgs 12-13.

Secondly, it has provided direct technical assistance to developing countries, particularly in the Asia-Pacific region, to help them implement effective intellectual property systems.

Apart from a different legal system and the obvious language barrier, a major difficulty in enforcing patents overseas exists by virtue of jurisdiction. For example, some lawyers in Europe will require a considerable upfront fee as security for the costs of their services; this is also known as a security bond. Such payments make the possibility of being able to enforce one's patent overseas much more remote for reasons of high up-front cost. The reason why such a payment is necessary is that foreign litigants could default on payment to the lawyer for the services rendered. It would then be extremely difficult for the lawyer to enforce the payment for their services when their client resides in another country. In addition to a security bond for legal representatives the court may request a monetary security in the event of an adverse cost order i.e. an order to pay the other party's legal costs.

### ***Post-grant patent enforcement strategies***

A range of post-grant enforcement strategies may potentially assist Australian enterprises with post-grant patent enforcement. The following issues/strategies have been identified and while this Paper deals with each separately, they can overlap. Furthermore, the issues may not be exhaustive nor should the potential strategies or solutions to these problems be constrained by current practice.

#### **Increasing awareness and monitoring infringement**

Even though patent owners seek assistance from IP professionals on technical legal issues relating to patentability they can overlook the need to understand the commercial implications or realities of exploiting and maintaining a patent. Enforcement issues can arise simply because of deficiencies in understanding, and in ongoing vigilance in monitoring the patents of competitors and the early detection of possible infringement of one's own patents.

There is potential for patent owners to avoid some of the problems associated with patent enforcement if they are made aware of both how the patent system works and how modern strategies are used in managing one's patent. If one is not vigilant in enforcement, patent rights can be eroded and become significantly devalued.

Since the formulation of a patent enforcement strategy is to serve overall business objectives, ideally it should be developed concurrently with research strategies and requires input from business, technical, and legal staff. A good enforcement strategy should support the overall business plan of the patent owner and might not necessarily refer to an intention to commence legal proceedings when patent rights are infringed. Rather, it may involve a strategic assessment of the scope of patent rights, proactive monitoring and setting parameters for beginning (and ending) infringement action. For example, in some cases patent rights can be infringed but it may not be in the interests of the patent owner to bring legal proceedings against the infringer. Reasons for this could include particular difficulties in proving the existence or ownership of the IP rights; in proving infringement; or simply the fact that the costs of the proceedings outweigh the value of succeeding in the infringement action. More patent owners could benefit

from developing an infringement strategy which is appropriate for the patents they hold and their own particular needs. An infringement strategy could specify:

- limiting the possibility of infringement through early stage monitoring including periodic review of competitors' products;
- the process that will be used to select targets for infringement action and the type of action against each target; for example, the threshold may be set according to the financial resources of the infringer as there may be no point in seeking damages from a company or person with no assets;
- the budgets for infringement actions; an unsuccessful party may not only have incurred their own legal costs, but may also be liable for some or all of the legal costs of the person they alleged was an infringer;
- setting goals for infringement action; these goals can include obtaining injunctions, recovering damages or deterrence through the use of publicity.

IP Australia is actively engaged in awareness programs and disseminating educational information for innovators. Despite these efforts, patent owners can still remain unprepared for enforcement. It is noted that IP Australia does not disseminate detailed educational information tailored to Australian innovators that are entering overseas markets. Patent owners seeking to enforce their rights in overseas jurisdictions would be in need of comprehensive information and assistance. Education and awareness is a key issue for public understanding particularly for first time patent owners seeking to enforce their rights in overseas jurisdictions. Even though the current information provided by IP Australia is of a high standard, there may be a need to refocus educational programs to include more detailed information regarding enforcement strategies both in Australia and overseas.

## Issues

**Question 1:** Is IP Australia's current information on patent enforcement sufficient?

**Question 2:** Is there a need to refocus IP Australia's education and awareness programs?

**Question 3:** Are there any more effective ways to increase awareness of patent owners or potential patent owners about the responsibility of patent enforcement?

**Question 4:** Should IP Australia's educational and awareness programs contain more emphasis on enforcing patents in overseas jurisdictions?

## Post-grant opposition

The concept of a post-grant opposition process has been the focus of previous reviews.<sup>6</sup> 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). A pre-grant opposition process only permits opposition proceedings in a certain period of time *before* a patent is actually granted. Australia currently employs a pre-

<sup>6</sup> Advisory Council on Intellectual Property (ACIP), *Review of Enforcement of Industrial Property Rights*, March, 1999.

grant opposition process that has some drawbacks that may be overcome by the introduction of a post-grant opposition system.

One of the main advantages of post-grant opposition is that the patent owner is able to commence infringement proceedings to protect their rights even during the opposition period. This is obviously not possible where the patent is yet to be granted under the current pre-grant opposition system. However, this advantage comes with the risk that the ability to initiate immediate infringement action may favour large corporations that are well resourced over patent owners with limited financial resources. Another possible benefit is that parties to a patent dispute may be more inclined to come to a commercial settlement in the face of a granted patent than one which is not granted.

Time is a critical factor in patent infringement cases because technology and ideas must reach the market place rapidly or risk becoming obsolete. A common criticism of the pre-grant system is that it is 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 complete<sup>7</sup>. The cause of this delay is largely due to the evidential time frames of the process that are easily exploited with repeated requests for extensions of time. Delays in patent opposition can present huge difficulties for patent owners as anecdotal evidence suggests that these proceedings are sometimes tactically used by opponents to hold up the possibility of an infringement action and to draw out the process at greater expense for the other party. A post-grant opposition system may have the capacity to reduce delay in achieving a granted patent and possibly lower the overall number of opposition proceedings. However, any efficiency benefits or gains over the current system will depend on the actual model or system of post-grant opposition used.

It should be noted that current usage of the pre-grant opposition system in Australia as a percentage of patents accepted remains steady at around 1.3% (over the last 5 years)<sup>8</sup>. 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 system<sup>9</sup>.

A criticism of post-grant opposition is that it has the potential to weaken the presumption of validity for a granted patent<sup>10</sup>. The basis of this claim is that under a post-grant opposition system matters which could affect the validity of a patent, such as claims to competing ownership and the like could not be raised until *after* the patent is granted. This can result in the grant of totally invalid patents. Under a pre-grant opposition system such matters can be addressed *before* the patent is actually granted during the opposition period. Another criticism is that under a post-grant system it would be open to the parties to completely avoid post-grant opposition and go straight to a prescribed court. This could lead to matters which are normally heard in opposition proceedings in IP Australia being heard through the more expensive court process of litigation. In implementing a post-grant opposition process, this tactic could be prevented by making opposition proceedings compulsory before any court action unless the opposition period has expired.

<sup>7</sup> Patent and Examination Hearings Group, *IP Australia*, 2006.

<sup>8</sup> *Ibid*

<sup>9</sup> [http://annual-report.european-patent-office.org/2005/business\\_report/patent\\_process/index.en.php](http://annual-report.european-patent-office.org/2005/business_report/patent_process/index.en.php)

<sup>10</sup> [http://www.patenthawke.com/archives/2005/04behind\\_the\\_catc\\_1.html](http://www.patenthawke.com/archives/2005/04behind_the_catc_1.html)

Post-grant opposition is already in place in various forms in many countries and jurisdictions such as the EPO, China, Germany and Korea, and is being further explored by other countries. Post-grant review is not a new concept in the United States. Since 1999 U.S. patents have been subject to an *inter partes* re-examination process. Earlier this year in the United States, an intellectual property panel introduced a Bill called the *Patent Reform Act 2006*. A key feature of this Bill would establish a post-grant opposition system that would allow outsiders to dispute the validity of a patent before a board of administrative judges within the US Patent Office, rather than in the traditional court system. The rationale behind such a proceeding, which is also endorsed by the US Patent Office, is to reduce delays and formal litigation. This proposal is similar to the concept of a patent tribunal which is discussed in the next section of this Issues Paper. The proponents of this post-grant opposition system in the US argue that harmonization with the EPO presents a strong incentive to adopt post-grant opposition<sup>11</sup>. The current movement of accepting post-grant patent opposition as the standard international practice may serve as an incentive for Australia to follow suit in the interest of harmonization.

Any decision on a post-grant opposition process would most likely result in removing the pre-grant opposition process as it would be undesirable to have both.

## Issues

**Question 5:** Would a post-grant opposition process offer greater benefits over the existing pre-grant opposition process?

**Question 6:** Would a post-grant opposition process assist patent owners to better enforce their patent rights?

## Validity and infringement opinion service

The UKPO has recently implemented a new Validity and Infringement Opinions Service which is designed to help SMEs and individuals involved in patent disputes. The new procedure is designed to give parties involved in a dispute access to an impartial and affordable assessment of the main issues in contention. The most important issues in disputes over patents concern (i) the question of whether a particular product or process *infringes* a patent and (ii) the question of whether a patent is *invalid*, because the invention is not new or is obvious. The Opinion Service has been introduced to provide parties with an alternative means of resolving disputes on these matters without having to file legal proceedings in the courts. It is not a new form of binding proceedings, but it is designed to help parties focus on the key issues in a dispute and test the strength of their arguments, without committing themselves to a subsequent course of action.

The new procedure 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 will have to file a written statement setting out the facts they wish to be considered. If a person seeks an opinion on validity, they may need to 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

<sup>11</sup> <http://www.mondaq.com/article.asp?articleid=39280>

opinion on infringement, their statement will need to describe the product or process in question. The person seeking the opinion must make a new case - they cannot simply rehash 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 on a particular patent is advertised to the public. This gives anyone who is interested in the issues opportunity to make written submissions. The Opinion Service will only cover patents and is ultimately aimed at helping parties settle a patent dispute without having to litigate. However, if litigation is not avoided the opinion obtained will at least help the parties clarify the real issues in dispute and thus may reduce the cost and time of any subsequent litigation.

The trend in the UK, at least, appears to recognise that IP offices can have a proactive role in assisting patent owners to resolve their disputes in a cost effective way. The Commissioner of Patents in Australia does have legislative powers to re-examine patents if asked to do so by a patent owner or any other person. This service is limited to re-examining the validity of a patent i.e. whether the invention is novel and whether the invention involves an inventive step.<sup>12</sup> However, it should be noted that neither the Commissioner of Patents nor IP Australia currently have the power to provide an opinion on whether one patent is infringing another.

Utilising IP Australia’s technical expertise to review a patent in terms of validity or to establish whether one patent is infringing another could aid in reducing enforcement costs. For example, the courts could link the award of costs to whether the patent owners had obtained a reassessment of validity before commencing litigation proceedings. This would save the parties from having this question determined by the court which can be an expensive and lengthy exercise. It is notable that in jurisdictions such as Japan and Germany, courts do not delve into issues of “validity” in patent suits i.e. whether the patent should have been granted, but instead defer to the Patent Office.<sup>13</sup>

## Issues

**Question 7:** Would it be beneficial for patent owners if, on request, IP Australia provided an opinion on the issue of patent validity or infringement?

**Question 8:** Should it be mandatory to obtain a validity opinion from IP Australia prior to seeking legal action?

**Question 9:** Should the award of costs be linked to whether a patent had been re-examined in terms of its validity by IP Australia before the question had been argued in court proceedings?

<sup>12</sup> *Patents Act 1990*, Section 98.

<sup>13</sup> S., Deepak., *Obtaining and Protecting Patents in the United States, Europe and Japan, Regulatory Encounters*, University of California Press, USA, 2000, pg 281.

## Alternative Dispute Resolution (ADR) - Mediation

ADR systems may be part of the normal court process or operate outside them<sup>14</sup>. ADR may involve a spectrum of approaches from negotiated settlement through to arbitrated judgment (the latter is akin to a private court). Mediation is a proven dispute resolution process that ultimately assists in:

- finding common ground
- identifying the real differences/dispute
- helping to solve some of the differences

Much of the cost of litigation can be avoided if genuine efforts towards mediation are made prior to the dispute entering the full trial stage. Mediation and other alternative dispute resolution procedures are therefore being increasingly adopted. Mediation has several advantages:

- can provide creative and innovative solutions
- those in dispute have more control over the process
- the mediator is independent and impartial, and may see new solutions
- significant attorney fees and litigation costs can be saved
- can reduce the time taken for parties to resolve their disputes
- flexibility, as the mediation procedures can be tailored to suit the needs of each case
- enables parties to avoid publicity and keep disputes confidential
- parties can avoid undesirable precedents
- can occur at any stage in the litigation process
- particularly suitable to disputes arising in the context of an existing business relationship (due to its non-confrontational nature); this enables relationships to be preserved
- allows the laws of different jurisdictions to be taken into account which magnifies the benefit of mediation in disputes abroad.

However, there are times when mediation may not be appropriate; for example, where an urgent interim injunction is required. Other examples of cases that are not suitable for mediation include matters involving complicated issues that need detailed analysis, or where a party requires full disclosure and/or an examination of evidence to understand their position. In addition, some parties will not accept anything less than an outright victory in court. Mediation, which requires the cooperation of both sides, may not be appropriate where deliberate bad-faith patent infringement is involved. Similarly, where the objective of the parties, or of one of them, is to obtain a neutral opinion on a question of genuine difference, or to establish a precedent or to be publicly vindicated on an issue in dispute, then mediation is not the route to be followed. Where the goal of a party is actually to impede prompt resolution, then voluntary and efficient mediation is also not desirable.

On 3 April, 2006, the United Kingdom Patent Office (UKPO) launched a new mediation initiative aimed at encouraging more use of alternative dispute resolution in

<sup>14</sup> 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.

IP. It 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 been increasing calls 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, 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 mediate. 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.

Similar sentiments to those in the UK on mediation have been expressed by the Australian judiciary. However, the idea of *mandatory* mediation can be a double edged sword. On the one hand it may lower the net cost of resolving patent disputes and on the other it may add a further layer of time and cost in what is already a complex area. Such a mediation service is not currently offered by IP Australia so the viability and need for such a service needs to be further explored.

## Issues

**Question 10:** Would mediation be of benefit in patent disputes?

**Question 11:** Should IP Australia provide a similar mediation service to that provided in the United Kingdom?

**Question 12:** Should mandatory mediation occur prior to an enforcement action being pursued in the courts?

**Question 13:** Would it be of benefit if mediation efforts were considered when legal costs are awarded?

## Patent tribunal

Another possibility for providing a cheaper and more efficient form of dispute resolution for patent owners would be to establish a patents tribunal. Such a body could hear technical matters on validity and infringement at first instance instead of the Federal Court or State Supreme Courts. The findings of the tribunal could then be

forwarded to an appropriate prescribed court for the parties to the dispute to obtain any further orders such as an injunction or an award of damages etc. It is also conceivable that this tribunal could take over IP Australia's function of hearing pre-grant opposition or post-grant opposition should this be adopted as a viable alternative.

The primary aim of a patent tribunal would be to provide a more efficient and less expensive process of hearing patent disputes than is currently available before the Federal Court. Judges are not experts in technology so much of the expense and time involved in determining patent validity or infringement involves informing the court on highly technical concepts. This would not necessarily be the case with a tribunal as the sitting members would have a mix of qualifications in law and technology. The presiding members of a patent tribunal could be rotated based on the need for their subject matter background or specialisation. Ideally, the members of such a tribunal could be drawn from members of the legal fraternity and the patent attorney profession.

One particular concern with a patent tribunal is that it may simply add another layer of complexity to the patent enforcement process. Even though such a body would be more informal than proceedings in Federal Court and possibly have less ridged rules of evidence, patent owners would still require representation by a lawyer. There is also the risk that the tribunal may be open to abuse by one or more of the parties as they could use tribunal proceedings as a dry run of their case with the overarching intention to see what evidence the other side has prior to appealing to the Federal Court. Anecdotal evidence suggests this tactic is sometimes used in pre-grant opposition proceedings.

Even though all decisions from a patents tribunal would have to be reviewable upon application, consideration could be given to setting up the tribunal so that an appeal is confined to points of law. This essentially means that the parties could not have the whole matter heard *de novo* or afresh i.e. on appeal they would be confined to the issues or the evidence which was presented to the tribunal. However, there may be constitutional limitations with restricting *de novo* appeals from patent tribunal decisions.

The implementation of a patent tribunal would require additional human and financial resources, possibly leading to increased fees to patent examination and administration. Furthermore a patent tribunal would involve considerable legislative change. Such a body would also clearly need to be separate from and completely independent of IP Australia.

## Issues

**Question 14:** Would an independent decision-making body such as a patent tribunal assist patent owners to effectively enforce their patents?

**Question 15:** Before seeking a hearing from the Federal or State Supreme Court should it be mandatory for patent owners to first seek judgment in a patents tribunal on questions of patent validity and/or infringement?

**Question 16:** Is it likely that a patent tribunal would add another layer of expense and complexity to the current process of patent enforcement?

**Question 17:** Are there other quasi judicial models that would be more effective?

**Question 18:** Would it be beneficial for a patent tribunal to hear post-grant opposition proceedings?

## Patent Insurance

While patent insurance is available, the limited nature of the coverage, the expense of premiums and the exemptions which are often included means that its use is not common. Patent insurance is one area of financial assistance that could be made available to individuals and SMEs by the private sector. Premiums would need to be affordable. Generally, there are two types of patent insurance. The first protects a patent holder against loss due to the infringement of a patent. The second protects the insured against infringement claims by a patent holder. Clearly, both types of patent insurance overlap with the issue of cost in the enforcement of patent rights.

Like other intermittent high costs, patent insurance represents a way for patent owners to spread the risk of litigation. However, for insurers it represents a classic problem that economists call 'moral hazard' i.e. those who are most likely to buy insurance are those who think they are most likely to get into disputes. This problem can be reinforced by the sometimes obsessive belief of patent owners in the uniqueness and quality of their inventions that can lead them to litigate as long as funds are available, beyond what prudence would dictate. In some countries in Europe it has led to insurance companies completely abandoning the patent insurance market.

However, patent insurance, otherwise known as litigation insurance, has been successful in some countries like Germany where the cost of prosecuting a patent enforcement action is more fixed and predictable.<sup>15</sup> A possible barrier to the prominence of patent insurance in Australia is the unpredictable nature of legal costs in patent disputes. This unpredictability makes it very difficult for insurance companies to identify the potential extent of their liability exposure and therefore difficult to formulate commercially viable insurance policies that offer adequate insurance coverage.

## Issues

**Question 19:** Is patent insurance a viable option for SMEs seeking to enforce their patent or defend their patent from invalidity claims?

**Question 20:** What is the reason for the apparent reluctance of private enterprise to provide patent insurance?

<sup>15</sup> ALRC, *Managing Justice: A Review of the Federal Civil Justice System*, Report 89, January, 2000.

**Question 21:** What can be done to ensure private enterprise provides commercially viable patent insurance?

### Enforcement fund

The possibility of establishing a patent enforcement fund has been explored in overseas jurisdictions. For example, in the United Kingdom, the Intellectual Property Advisory Committee (IPAC) 2003 report on *The Enforcement of Patent Rights* referred to the idea of a patent enforcement fund into which a percentage of all patent fees (application, grant, and renewals) is contributed. Such a strategy could assist patent owners particularly in the event that the private sector in Australia does not provide adequate and affordable patent or litigation insurance. A mandatory contribution to a dedicated fund that will assist to enforce or defend a patent might be a viable alternative to patent insurance which may have some drawbacks, e.g. cover limitations, on-going premiums and the relatively small size of the litigation insurance market. Patent owners that could demonstrate a good prima facie case on either validity or infringement could apply for grants from the fund to enforce or defend their patent.

The central issue in contemplating such a program is the question of funding. The UK suggestion of collecting such a fund from a percentage of patent fees (application, grant and renewal fees) is one possible option<sup>16</sup>. An enforcement fund would have the advantage of harnessing the collective financial capacity of all patent owners. Given the high costs of patent enforcement actions it is possible that a mandatory scheme may not be sufficient and would need subsidisation in order for it to be effective. Subsidisation might be justified by the fact there may be a potential loss of tax payers money via the Government funding initiatives to support business, for example ‘start ups’, which subsequently fail due to their inability to enforce their patents.

However, there is a danger that such a fund could be accessed by patent owners that have ready access to huge financial resources therefore the qualifying criteria for access to such a fund would be critical in order to filter out those who do not need this type of assistance. Another potential problem is that some patent owners may object to contributing to an enforcement fund that could eventually be used against them. In addition, the extra cost of patent applications from such a fund might add another impediment for innovation growth in Australia. It is noteworthy that IPAC did not recommend an enforcement fund. The concept of an enforcement fund ultimately needs to be balanced with the fact that there are a relatively small number of patent infringement actions within Australia each year.

### Issues

**Question 22:** Would patent holders benefit by a type of enforcement fund?

**Question 23:** How could an enforcement fund be administered and financed?

<sup>16</sup> Intellectual Property Advisory Committee (IPAC), *The Enforcement of Patent Rights*, November 2003, UK, pg 40.

**Question 24:** Should an enforcement fund be established that is funded by patent examination and registration fees?

### Tax reform

Societies often encourage actions that they see as desirable through government subsidies, especially if market failure is occurring. If patent enforcement problems are leading to less than optimal use of the intellectual property system then there may be a case for governments subsidising the IPR system. West<sup>17</sup> points out that not spreading the high costs and risks of innovation is one of the greatest weaknesses of the Australian system and governments may have to intervene to spread some of these high costs and risks, in much the same way as they have done for major infrastructure costs such as the Snowy Mountain scheme or the Darwin-Alice Springs railway.

Tax incentives or subsidies may be a solution to this problem. One of the suggestions in the UK IPAC report<sup>18</sup> was to give inventors and SMEs tax incentives in the form of reduced corporation or income tax. The cost of legal representation is a key problem for patent owners. Legal expenses in Australia are tax deductible for business if they are incurred in relation to gaining and producing income. It should be noted that such deductions apply without any assessment of the merit of the case or the reasonableness of the expense.

A possible tax reform that could assist patent owners is increasing the level of tax deductibility for the cost of litigation. For example, instead of 100% of litigation expenses being tax deductible, the Government could increase the deduction to 125% or 150%. Such a change could assist patent owners enforce their rights both domestically and internationally and would provide assistance to patent owners in a similar way that some research and development programs are tax deductible. Whilst there is a risk that such a change may encourage more litigation, the litigant would still need to pay those expenses before they could receive the tax deduction.

There have been many reviews in the past which suggest that tax deductions serve as an incentive to companies and those running a business to litigate. However, the legal profession has responded to this by arguing that removing or capping tax deductions would increase litigation not reduce it.<sup>19</sup> It has been suggested that ADR should be more actively targeted which could be facilitated by increasing the amount of tax deductions relating to ADR processes such as mediation but restricting tax deductions for court litigation<sup>20</sup>. It is possible that such a change would give parties greater incentive to resolve disputes without having to endure expensive and protracted litigation.

<sup>17</sup> [www.agsm.unsw.edu.au/eajm/0108/pdf/west.pdf](http://www.agsm.unsw.edu.au/eajm/0108/pdf/west.pdf)

<sup>18</sup> Intellectual Property Advisory Committee (IPAC), *The Enforcement of Patent Rights*, November 2003, UK.

<sup>19</sup> ALRC, *Managing Justice: A Review of the Federal Civil Justice System*, Report 89, January, 2000 New South Wales Bar Association *Submission 88*; Law Council *Submission 126*

<sup>20</sup> *Ibid.*, paragraph [5.37], the report cited that this was a submission from the Law Society of NSW Task Force 'Access to the civil courts' in Law Society of NSW *Accessible justice summit: Summary of proceedings and selected papers* Law Society of NSW Sydney 1992, pg 48.

## Issues

**Question 25:** Would patent owners be better able to pursue enforcement actions if there were higher rates of tax deductions for patent litigation expenses?

**Question 26:** Would more people be encouraged to use ADR measures if there were restrictions on tax deductions for litigation expenses?

**Question 27:** Could other tax incentives assist individuals and businesses to better enforce their patents?

### Criminal sanctions

The question of whether patents should involve criminal sanctions can turn on arguments of whether they are purely ‘private rights’ to be enforced by civil infringement proceedings or a public good to be protected by the public law enforcement authorities. In fact, patents attempt to turn ideas that have many public good characteristics (such as non-rivalrous use and non-appropriability) into temporary private appropriability in order to allow recovery of expenses, with profits for creation. In addition, criminal law enforcement has long been concerned with protection of private i.e. physical property, against theft and damage.

In practice whether a patent is protected by criminal sanctions or not can depend on one or more of the following questions:

- Is infringement widespread?
- Does infringement have significant national economic consequences?
- Are civil damages unlikely to be recoverable from the offender?
- Are criminal sanctions including imprisonment necessary for deterrence?

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 infringement<sup>21</sup>. To the patent holder, criminal proceedings have advantages over civil proceedings because the state incurs much of the cost of the enforcement proceedings. In addition, criminal sanctions including imprisonment can be a greater deterrence against infringement than civil remedies particularly if the infringer is unable to pay. A major disadvantage is that there is no financial compensation to the patent owner for the loss of profits as any fine remains with the state. Correspondingly, the state incurs the greater expense which will rarely be compensated for by any fines imposed. In the past, police forces such as the Australian Federal Police, with their over-stretched financial resources, have not frequently become involved in IP enforcement because it is generally given a lower priority compared to other crimes.

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

<sup>21</sup> Freeland, R., and Parker, S., *Imprisonment for infringement? Patent World* July/August 2006 Number 184, pg 29. The authors state that in these countries the criminal procedure is rarely used.

jurisdiction. A draft Directive of the European Parliament and of the Council on Measures and Procedures to Ensure the Enforcement of Intellectual Property states that serious infringement of IPR should be treated as criminal offences including imprisonment.<sup>22</sup> European Union member states are due to implement Directive 2004/48/EC. The objective of this directive is to ensure best practice and harmonization in relation to IP enforcement. At this stage it is unclear whether the provisions relating to criminal offences in this Directive will be accepted<sup>23</sup>. In Australia, criminal penalties are contained in IP legislation such as the *Trade Marks Act 1995* and the *Copyright Act 1968*. There are criminal penalties in the *Patents Act 1990* which relate to offences such as false representations about patents and failure to produce documents and articles requested by the Commissioner without a lawful excuse<sup>24</sup>. However, the *Patents Act* does not contain any provision that makes it a criminal offence to infringe a patent.

Criminal sanctions need not necessarily involve imprisonment; for example, criminal sanctions often result in the imposition of a fine from the court. Such provisions in IP legislation may raise awareness and respect for intellectual property rights especially given the stigma and negative publicity resulting from criminal prosecutions.

## Issues

**Question 28:** Should criminal penalties be available for patent infringement?

**Question 29:** Should criminal sanctions be available only in the event of willful patent infringement?

## Exemplary damages

In the event that a patent is infringed, the owner of the patent can seek a variety of legal remedies the first of which may be an injunction or order from the court for the infringer to cease engaging in the alleged infringing activity. Injunctive relief to restrain the infringement will always be available at the court's discretion. In addition to this remedy, the patent owner can seek court orders for compensatory damages or an account of profits as per section 122 (1) of the *Patent Act 1990*.

If a patentee wants to recover losses caused by infringement activities, they must take the option of either an account of profits or damages, they cannot select both. In practice, the court's calculation in determining the amount payable under these remedies can be difficult<sup>25</sup>. Depending on the available evidence, the court's determination of the amount of financial compensation payable under these remedies can be dictated by what is required to achieve justice rather than the application of a

<sup>22</sup> Intellectual Property Advisory Committee (IPAC), *The Enforcement of Patent Rights*, November 2003, UK - Appendix 4.

<sup>23</sup> The chapter of the Directive relating to criminal sanctions is currently under review by the European Court of Justice (ECJ) see Rawlinson, P., and Fairhead, N., *Inside the EU IP Enforcement Directive*, *World Trade Mark Review*, May/June 2006, pg 15.

<sup>24</sup> See sections 177 and 181 of the *Patents Act 1990*.

<sup>25</sup> Advisory Council on Intellectual Property (ACIP), *Review of Enforcement of Industrial Property Rights*, March, 1999, pg 26.

ridged mathematical formula<sup>26</sup>. In some cases the award of such remedies is not an effective deterrent and an infringer may choose to infringe a patent knowing there is little risk of excessive financial penalty. To ameliorate this situation, ACIP recommended in a previous report that the award of exemplary damages be available to the court<sup>27</sup>. This remedy was accepted by the Government and is now contained in the *Intellectual Property Laws Amendment Act 2006*. The new subsection permits the court to include an additional amount in the award of damages for the infringement of a patent if the court considers it appropriate to do so and having regard to certain criteria which includes:

- the flagrancy of the infringement;
- the need to deter similar infringements of patents;
- the conduct of the infringing party that infringed the patent that occurred after the act constituting the infringement or after that party was informed that it had allegedly infringed the patent;
- any benefit shown to have accrued to that party because of the infringement;
- all relevant matters the court thinks fit.

Exemplary damages are similar to the US concept of “triple damages” that can be awarded for knowingly infringing a patent. It is claimed that such discretionary additional penalties are a stronger deterrent of intentional or willful patent infringement. The introduction of exemplary damages for IP infringement is not new in Australia; for example, the *Copyright Act 1968* also contains provisions for the award of additional damages by the court. Given that the courts have yet to order this form of remedy in relation to patent enforcement, this issue is presented in this paper by ACIP to raise awareness of this pending change.

### Litigation overseas

For many patent owners, it is necessary to export in order to have a large enough market to make their product commercially viable. However, the costs of obtaining and enforcing IP rights overseas can be very high and this can be a considerable deterrent for exporters in knowledge-based industries, particularly SMEs. The high costs of litigation overseas can impact on the level of innovation within Australia and the nation can possibly miss out on the flow on economic benefits.

The expense of enforcement can be considerable if the owner of a patent has to take simultaneous action in a number of countries. Moreover, a successful outcome in one country need not foreshadow a successful outcome in another country. Difficulties with enforcing patents are not limited to domestic courts. The issues of fast, cost-effective and certain outcomes are repeated and even magnified in overseas jurisdictions. Moreover, enforcing patents in an overseas jurisdiction has its own set of issues including a bias (whether perceived or real) against overseas litigants; the problem of understanding the individual complexities of another system of justice; respect for IP, the increased time, distance and cost of dealing with lawyers in another country; and the need to sometimes have two sets of lawyers - those in the home country and those in the country of litigation - to advise on the same issue.

<sup>26</sup> Caenegem, W.V., *Intellectual Property*, Butterworths, 2001, pg 303

<sup>27</sup> Advisory Council on Intellectual Property (ACIP), *Review of Enforcement of Industrial Property Rights*, March, 1999, pg 26.

Some of the strategies discussed thus far- such as mediation, patent tribunal, etc - have already been implemented in overseas jurisdictions. Given the jurisdictional issues and differences in domestic law ranging from Europe to Asia, general strategies for alleviating the difficulties of enforcing patents overseas can be somewhat limited. Changes that can assist patent owners pursuing enforcement action internationally can be divided into external and internal strategies. External strategies relate to measures that will directly help in the relevant overseas jurisdiction whereas internal strategies relate to what changes can be undertaken within Australia (some of which have been already discussed e.g. raising awareness) to assist patent owners overseas.

An ongoing external strategy is the Australian Government's current efforts 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). This Agreement sets out general principles on patent enforcement insisting on the fair and equitable treatment of foreign nationals. 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 which presents considerable difficulties for domestic patent owners.

Australia is currently contributing to the WIPO fora not only to aid harmonization of IP laws but also to exert pressure and assist countries develop their IP systems, particularly in the Asia-Pacific region. 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. But what about other strategies? One possibility could be to make a register of companies or patent owners found to have infringed another's patent rights in that overseas jurisdiction. This may serve as a social deterrent as it could publicly shame offenders, reveal repeat offenders and identify and display public patterns of infringement. Such a register could also be referred to when patent owners are making a litigation risk analysis in their own case concerning a patent that has already been tested or enforced in another jurisdiction.

A possible internal program or strategy to assist patent owners with enforcement overseas could involve IP Australia developing a set of guidelines for particular countries e.g. publication of information relating to the enforcement law and procedure in specific countries. If such information were readily available to patent owners then they would be better informed and would have more understanding about decisions relating to patent enforcement proceedings overseas. Such information could be along similar lines to IP Australia's "*IP Tool box*" publication which is a comprehensive publication aimed at assisting patent owners with their patent application, enforcement and maintenance in addition to other IP rights. It would be desirable to work closely with AusTrade, which already assists Australian exporters, in formulating such a publication in order to ensure that the information is consistent and in a format that is most useful to patent owners.

## Issues

**Question 30:** In addition to current efforts in international fora, what other strategies could Australia pursue internationally to assist patent owners enforce their patent rights in overseas jurisdictions?

**Question 31:** What kind of domestic changes, programs or strategies are more likely to assist patent owners with enforcement overseas?

**Question 32:** Would a publication or on-line information site dedicated to assist patent owners enforce or defend their rights in country specific jurisdictions be advantageous?

**Question 33:** Are there other strategies that could make overseas patent enforcement easier and less costly?

### Customs provisions for imported goods infringing patents

Another possible option to consider that may help business protect their patents is to implement a system of customs seizure for goods that allegedly infringe patents. In Australia there are legislative provisions relating to customs seizure of imported goods which infringe registered trade marks or copyright materials. There are no such provisions relating to patents. Such provisions are primarily designed to temporarily stop the importation and distribution of goods which were manufactured overseas without the approval of the IP owner while the IP owner seeks orders from a court permanently preventing the goods from being imported.

To obtain Customs help in relation to trade marks, the owner must lodge a notification (which sets out the nature of the IP owned) and a security deposit with Customs<sup>28</sup>. The security deposit is put in place to cover Customs' costs and any liability it might incur to an importer, arising out of any seizure. In other words, if Customs suffers any costs or loss as a result of the seizure, the rights owners will be obliged to repay those costs to them out of the security deposit. Customs officers will seize any goods infringing the trade marks covered by the notification. The owner/exclusive licensee/authorised user then has 10 days to take action against the importer. During that time, Customs will detain the products.

However, at the end of 10 days the goods will be released to the importer unless the owner/ exclusive licensee/authorised user has initiated legal proceedings and has obtained an appropriate order from the court. The seizure is only temporary and if proceedings are not commenced in a court within 10 days of the seizure of the goods, they will be returned to the importer.

The UK is one of a number of European countries that has such customs seizure provisions in place for goods which infringe patents<sup>29</sup>. International trade in goods infringing intellectual property rights is very significant; for example, it is estimated

<sup>28</sup> Trade Marks Act 1995, section 132.

<sup>29</sup> *The Goods Infringing Intellectual Property Rights (Customs) Regulations 2004* No 1473

that such trade accounts for between 5% and 7% of all world trade<sup>30</sup>. The implementation of customs provisions similar to that for trade marks was a recommendation of a previous ACIP report<sup>31</sup>. Recommendation 12 of that Report stated that consideration should be given to amending the *Patents Act 1990* to reflect the importation of goods, indemnity and seizure provisions of Part 13 of the *Trade Marks Act 1995* so that similar provisions apply to infringing patented material. At the time the Report was released the Council acknowledged that the detection of imported goods which infringed patents may be more difficult than for trade marks (e.g. detecting and identifying infringing goods that are the internal components of a complex machine.) Even though the Government accepted ACIP's recommendation as yet there has been no implementation of customs provisions to the importation of patented goods.

## Issues

**Question 34:** Should there be legislative provisions relating to customs seizure of imported goods which infringe patents?

## Legal fees

Contingency fee arrangements are commonly used by plaintiff lawyers in personal injury cases throughout Australia; these are more commonly known as “no win no fee” arrangements. In these instances, lawyers are effectively financing their client's own litigation. This enables people with limited financial resources to pursue their legal rights as the lawyer bears those costs if the action is unsuccessful and recovers them out of the damages award or cost order in favour of the client if the action succeeds. However, in all such arrangements, the litigant still carries the residual risk of having to pay the costs of the other party if the claim is unsuccessful and is responsible for paying the disbursements incurred by their lawyer. Contingency fee arrangements may be able to assist patent owners fund infringement actions or actions in defence of invalidity claims. Currently most jurisdictions in Australia prohibit law practices from entering into a cost agreement where the amount payable to the practice is worked out by reference to the amount of any award or settlement or the value of any property that may be recovered in any proceeding to which the agreement relates<sup>32</sup>.

The Australian Law Reform Commission (ALRC) looked briefly at contingency fees and percentage fees as possible alternative methods of billing in the *Managing Justice* Report. The ALRC supported the extension of contingency schemes in the federal jurisdiction provided such schemes are carefully controlled to protect consumers and the administration of justice. The ALRC did not support the introduction of a US

<sup>30</sup> United Kingdom Explanatory Memorandum on –*The Goods Infringing Intellectual Property Rights (Customs) Regulations 2004* No 1473

<sup>31</sup> Advisory Council on Intellectual Property (ACIP) *Review of Enforcement of Industrial Property Rights*, 1999.

<sup>32</sup> NSW-*Legal Professions Act 2004* section 325, VIC-*Legal Profession Act 2004* Part 3.4 section 29, Queensland *Law Society Act 1952* section 48(D), A.C.T- *Legal Profession Act 2006* section 285 (1).

style contingency fee model which is based on a percentage of the outcome in any matter.<sup>33</sup>

The current practice of an hourly fee arrangement can encourage delay, inefficiency, and unnecessary legal action. A benefit of a contingent fee is the added inducement for a lawyer to be efficient and expeditious. As lawyers are assuming some of the risks associated with the case, the fees charged will reflect this; however, there is a danger that contingency-based fees may lead to a higher premium being charged. Despite this danger, there is evidence to suggest that a contingency fee arrangement can facilitate meaningful and affordable legal remedies.<sup>34</sup>

There are two key limitations to contingency fees that are particular to patent enforcement cases. Firstly, lawyers may be reluctant to represent the patent owner on a contingency fee basis because compensatory damages can be difficult to prove. Secondly, is the actual probability of a successful action upon which lawyers will require to recoup their time and expense in representing their client. For example, a study by the Intellectual Property Research Institute of Australia measuring the ultimate determination by the courts found that of the 29 cases surveyed alleging patent infringement, 16 cases (or 55%) were upheld by the court<sup>35</sup>. The same study found that of 32 patent cases surveyed 14 (or 44%) of those cases had none of their allegations relating to patent validity upheld by the court<sup>36</sup>. Depending on how these figures are interpreted, it would be a calculated risk for patent attorneys/lawyers to undertake work on a contingency basis. Such fee arrangements may have the effect of marginalising patent owners where their likely enforcement outcome is uncertain.

## Issues

Notwithstanding that contingency fees form part of a much broader, on-going policy debate active at state and federal levels, ACIP remains open to comment on this issue in the context of patent enforcement.

## Conclusion

As stated at the beginning of this paper, its purpose is to identify stakeholder needs, gather evidence, stimulate public debate on patent enforcement issues and to provide a basis for discussion for interested parties. ACIP hopes that the issues raised are not considered to be conclusive or exhaustive and that this paper may serve to generate other relevant issues (not already identified in this paper) for discussion. Furthermore, ACIP hopes that the potential solutions to identified problems are not constrained by current practice.

<sup>33</sup> ALRC, *Managing Justice: A Review of the Federal Civil Justice System*, Report 89, January, 2000, para [5.21-5.26]

<sup>34</sup> G Dal, Pont., *Lawyers' professional responsibility in Australia and New Zealand* LBC Information Services 1996, pg 308.

<sup>35</sup> Weatherall, K.G. and Jensen, P.H. (2005). "An empirical investigation into patent enforcement in Australian courts", *Federal Law Review* 33(2), 239-286,- Table 7: Patent Infringement Determinations, 1997-2003.

<sup>36</sup> Weatherall, K.G. and Jensen, P.H. (2005). "An empirical investigation into patent enforcement in Australian courts", *Federal Law Review* 33(2), 239-286 -Table 5: Patent Validity Determinations, 1997-2003.

**Attachment 1****Trade Related Aspects of Intellectual Property (TRIPS) - Article 41**

1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.
2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.
3. Decisions on the merits of a case shall preferably be in writing and reasoned. They shall be made available at least to the parties to the proceeding without undue delay. Decisions on the merits of a case shall be based only on evidence in respect of which parties were offered the opportunity to be heard.
4. Parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions and, subject to jurisdictional provisions in a Member's law concerning the importance of a case, of at least the legal aspects of initial judicial decisions on the merits of a case. However, there shall be no obligation to provide an opportunity for review of acquittals in criminal cases.
5. It is understood that this Part does not create any obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general, nor does it affect the capacity of Members to enforce their law in general. Nothing in this Part creates any obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general.