

THE ADVISORY COUNCIL ON INDUSTRIAL PROPERTY

**REVIEW OF ENFORCEMENT OF
INDUSTRIAL PROPERTY RIGHTS**

March 1999

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1. Executive Summary

A major problem facing Australian patent owners is the difficulty in effectively enforcing their rights against infringement.

The major concern is substantial uncertainty regarding the outcomes of enforcement action. Some of the factors which contribute to this problem are:

- a low level of knowledge of what a patent right entails and how to manage intellectual property;
- a low presumption of validity of patents;
- the cost and time involved with taking enforcement action in the courts;
- the high degree of uncertainty of outcome in legal proceeding in patent matters; and
- the fear that parties with more resources can abuse the system and force an unfair outcome on smaller parties.

The recommendations in this report aim to address these problems. The main objective is to provide a cost effective patent system which reduces the incidence of infringement and gives greater certainty to patent owners/licensees enforcing their patent rights without damaging the public interest.

The council carefully considered the problems relating to enforcement encountered by Australian businesses, and the elements of an effective and more certain enforcement system. The report proposes a number of changes to the enforcement system which encapsulate the general features of:

- providing better education and awareness programs to users and potential users of IP;
- an increased presumption of validity, including a statement in the *Patents Act 1990* (the Act) that a granted patent is presumed valid, granting on the basis of 'the balance of probabilities', addressing the concept of 'fairly based', and revising disclosure requirements;
- improved appeal mechanisms and procedures for the review processes within IP Australia;
- increasing the specialisation of Intellectual Property (IP) judges;
- providing for increased penalties for infringers; and
- introducing provisions relating to the importation of infringing goods.

2. List of recommendations

1. IP Australia -
 - A. develop and deliver education programs designed to help owners of IP rights understand what their right entails, and how to manage their right, including enforcement strategies,
 - B. encourage business and IP education providers to include IP management elements in courses,
 - C. encourage industry associations to provide IP information opportunities for their members,
 - D. work with industry and professional associations such as AMPICTA, IPTA, LCA and LES in the delivery of these programs, and
 - E. work with the Australian Institute of Judicial Administration to develop IP awareness programs for the judiciary.

2. Amend section 49 (1) of the Act to the effect that in considering whether there are lawful grounds of objection, the consideration should be objective and the rule giving the benefit of doubt to the applicant should be abrogated in so far as it relates to novelty and obviousness.

3. The Act should be amended to state that a patent is presumed valid.

4. Amend IP Australia examination practice so that where there is a claim to priority from an Australian provisional specification, examiners will examine the broadest claim in the patent application to check that it complies with the first leg of the Mond Nickel rules, ie, an examination of whether the subject matter of the claim is broadly described in the provisional documents. Where the examiner has a doubt then they should object to it and give the applicant an opportunity to amend the specification.

5. In order to correct the tendency in a number of recent decisions by the courts to overly restrict the permissible ambit of claims, replace the 'fairly based' provisions in section 40 of the Act and the relevant regulations with provisions along the lines of s14(c) of the UK 1977 Patents Act. The amendment should clearly express that the claims are not to be confined by a particular disclosure, but may extend to all legitimate expressions of the concept of the invention disclosed.

6. Amend the Act to remove the jurisdiction of state and territory supreme courts to revoke a patent.

7. Encourage the Federal Court to promote further specialisation of IP judges, with initiatives including: specialist judges sitting interstate where there is not a specialist judge in that registry; and programs to assist specialist judges keep up to date with international trends.
8. Amend the Act to require an applicant, or where the applicant is a corporation, a person employed by that applicant who is at the relevant time, concerned with the preparation or prosecution of the application, to disclose to IP Australia any prior art material that has come to their attention in the course of preparing or prosecuting the patent application, and in any corresponding patent application in other countries.
9. Establish an appeal board within IP Australia which reports directly to the Director General of IP Australia, to replace the current hearings function, with the Director General having the same powers that the Commissioner of Patents currently has.
10. Provide the Director General, the Commissioner of Patents and an appeal board with the power to restrict access to commercial-in-confidence information provided as evidence at hearings to hearings officers and legal counsel or other specified or agreed persons.
11. Provided most of the recommendations in this report regarding strengthening patent validity are implemented, amend the Act to insert provisions for exemplary damages along the lines of section 115 (4) of the *Copyright Act 1968*. This is in addition to the courts' ability to order either ordinary compensatory damages or an account of profits.
12. Give consideration to amending the Act to reflect the importation of infringing goods provisions of Part 13 of the *Trade Marks Act 1995* so that similar provisions apply to infringing patented material. This should include indemnity and seizure provisions.

3. Background

3.1 Introduction

In June 1996 the then Minister for Science and Technology asked the Advisory Council on Industrial Property (ACIP) to examine issues relating to the enforcement of industrial property (IP) rights. He noted that the enforcement of rights was of considerable concern to many small and medium sized enterprises (SMEs).

The government's response to the council's review of the petty patent system reinforced the minister's request. Released in February 1997, the government response announced the government's intention to introduce an innovation patent system to replace the petty patent system. In responding to the council's recommendation 13, the government noted:

Industrial property is a highly specialised area of law involving complex questions of definition, ownership and exploitation, with disputes sometimes encompassing different areas of law. The cost and complexity of enforcing industrial property rights are problems for many users of the system. Although these problems are not confined to the existing patent systems, they are particularly pertinent in the context of a system designed to protect lower level innovations and which aims to assist individuals and small to medium sized business enterprises.

There are clear indications that for the innovation patent system to be attractive to users it must encompass provisions for a less costly and more timely means for enforcing innovation patent rights. However, because the channels for enforcement of innovation patent rights form part of the existing adversarial system there are inherent difficulties in proposing discrete and workable solutions. There are added difficulties in that different systems operate within state jurisdictions. Although this is a difficult issue it is one that ACIP would be well placed to examine. The Minister for Science and Technology has accordingly referred the issue of enforcement of industrial property rights to ACIP for their consideration.

The Government believes that, given the inherent problems with the adversarial system and the difficulty in separating the enforcement procedures for the innovation patent, ACIP may find it worthwhile to examine the problems and look for solutions from a preventive perspective. That is, to examine strategies that Australian businesses might employ to avoid, or at least minimise, the likelihood of attracting infringement actions or the need for them to instigate legal actions. The Council might also wish to explore solutions that are based on low cost, non judicial alternatives.

Following the initial request from the minister in June 1996, ACIP established a working party to study issues relating to the enforcement of industrial property rights and report back to the minister.

The working party has reviewed previous work on this subject and examined the extent to which those responsible have implemented previous suggestions and recommendations. The working party has also collected statistics from the courts and carried out a selective survey of patent attorneys, to develop a fuller understanding of the nature, scope and size of the enforcement problem. The working party provided the minister with an interim report on 11 August 1997. The report outlined its conclusions on these matters and proposed further work.

The issues raised in the interim report were further considered. Additionally, the working party conducted a workshop to canvass a broad range of views on IP rights enforcement. Thirty eight participants from a variety of IP sectors took part in the workshop.

This report reflects the results of the working party's consideration of its enquiries and of the workshop.

This report is directed specifically at the problem of patent enforcement. A separate inquiry will examine trade mark and designs enforcement.

Reference in this report to “the Act” refers to the *Patents Act 1990*.

3.2 IP enforcement

If owners of industrial property rights cannot enforce them with some certainty of outcome, the IP system can serve no useful purpose. Businesses will invest in developing innovations protected by IP rights only if they are confident about the outcomes of enforcement decisions relating to their rights.

An IP system that does not have avenues for the effective enforcement of the rights it creates is an incomplete system. At the same time, a system that inhibits commercial activity because it makes it too difficult to challenge dubious rights, except at great financial risk, is also faulty. Equally necessary is that decisions of the courts should be consistent and predictable.

The system should be such that, so far as practicable, enforcement and the testing of rights should be fast, cheap, and predictable and that the outcomes of enforcement actions are fair, just, and independent of the financial strengths of the parties to the dispute.

Expensive, time consuming or unfair dispute resolution mechanisms will discourage firms from taking enforcement action. This will discourage them from using the IP system and the nation will lose out on the benefits the system should produce. Moreover, complex and costly 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.

3.3 Different types of enforcement action

The term ‘enforcement of IP rights’ encompasses a wide range of legal, administrative and commercial actions and processes. Moreover, different parties to the same action may view it in a very different light.

Generally, the enforcement of IP rights involves either the owner of the rights taking action to compel others to respect them; or third parties taking action to challenge the validity or scope of any rights that others are seeking to claim or use. From the point of view of an owner or prospective owner of IP rights, these situations are very different.

Enforcement goes beyond actions taken on patents, trade marks and designs. This is because many firms may be just as concerned with the need to take action in response to trade secrets or unregistered trade marks, for example. Indeed, a sophisticated IP management strategy might choose to use trade secrets rather than patents for enforcement reasons. A firm’s perception of enforcing these other rights might be a major factor in their deciding to seek formal protection or not. (In this context it is interesting that a survey of IP Australia’s clients discovered that smaller firms have a more limited understanding of the IP strategies available to them than larger firms do. Smaller firms are more likely than larger firms to consider patenting as a first resort.)

Some of the factors that help classify different forms of enforcement action are whether the action:

- relates to patents, petty patents, trade marks, designs, trade secrets, etc.;
- was initiated by the applicant/owner, or a third party;
- is pre- or post- grant of the patent;
- relates to the validity of the right;
- relates to the scope of a right;
- relates to the ownership of a right;
- concerns the alleged infringement of a right;
- relates to licensing issues;
- includes a combination of the above; and
- is based in Australia, overseas or both.

Another relevant factor is the remedy the parties are seeking.

3.4 Some general issues

Many owners or potential owners of IP rights perceive the enforcement of IP rights as difficult, time consuming and expensive. Moreover, a surprising number of firms believe that IP Australia is responsible for monitoring possible infringement and enforcing IP rights, at least in Australia. One reason for this may be that these firms believe they themselves have neither the expertise, nor the financial resources, needed to fight infringement actions.

One reason for the complexity of enforcement proceedings is that the firms involved are likely to counterclaim for the revocation of the IP rights, on the grounds that the grant was invalid. Firms may decide to avoid enforcement actions so that there is no third party challenge to their granted right.

The high cost of litigation may also cause the parties involved in a dispute to seek an out of court settlement. However, out of court settlement might be less likely if the owner of a right is small but the alleged infringer can easily carry the costs of litigation, and sees commercial advantage in doing so.

SMEs often feel that bigger firms can employ more and better legal resources and can drag out legal actions to suit their own ends. The larger party might delay out of court settlement, using the legal proceedings as an attrition process in which the costs build up to a level at which neither party has an interest in continuing, or one party finds it impossible to continue. The result might then be determined by which party had the greater financial strength, rather than by which party was in the right.

The situation can be even more difficult when the rights of Australian firms are being infringed in other countries. This adds not only to the expense, but also to the complexity of the proceedings. Different countries use different approaches to almost all the issues that the litigants need to address. If an owner of IP rights has to take action simultaneously in a number of countries, the expense can be considerable. Moreover, a successful outcome in one country does not guarantee a successful outcome in other countries.

The expensive, long and drawn out legal proceedings that may be necessary to enforce IP rights are not different in principle from the proceedings that occur in other areas of commercial law. They are however, often more difficult in practice because they often relate to very technical issues requiring substantial amounts of evidence and the use of many expert witnesses. Further, in many cases enforcement actions involve contractual disputes related to licensing and ownership, as well as matters relating to the validity of IP rights and their infringement. This raises the question of whether there are any matters peculiar to the enforcement of IP rights. For example, whether there are any actions that IP practitioners and those managing IP rights can take themselves to make enforcement easier, or to decrease the likelihood of them becoming involved in enforcement actions. A related issue is whether firms might use the management and control techniques they use to assess and reduce their other commercial risks to help reduce the risks associated with IP enforcement.

3.5 Scale of the problem

The cost and complexity of enforcement actions are important issues for any firms involved in them.

There are many ways to measure the importance of enforcement actions. One is to collect statistics on the number of cases falling into various categories. An additional measure might be the proportion of cases going to appeal. Other measures might be the proportion of court time taken up by IP actions or the total cost of such actions. Other useful financial indicators include the average cost of different types of enforcement proceedings, the range of costs, the cost of different stages of the process, and the overall cost to Australia of enforcement actions. Many firms also have an interest in the relative costs of similar action overseas.

One measure of the significance to Australia of enforcement actions might be an estimate of the total value of the IP that becomes subject to enforcement action each year. Another interesting measure would be the proportion of granted IP rights that becomes involved in disputes of one form or another. Given the perceived problems of large, well-resourced firms taking action against smaller firms, it would be interesting to have data on the proportion of cases falling into this category.

In an attempt to address some of these issues, 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. The working party also used information from several recent reviews and surveys. To supplement these data and help address some of the gaps in the available information, the working party carried out its own selective survey of patent attorney and legal firms.

The data shows an increasing number of enforcement cases being filed in the Australian courts. However, the number of cases as a proportion of granted rights has remained more or less constant, at around 0.03-0.04% of the total number of rights registered in any one year. For 1996, this equates to around 29 out of over 73,000 patents in force. (Table 1, Attachment 1) However, the survey responses suggest that the courts decide less than 10% of cases filed and many enforcement actions do not involve litigation.

These figures are from court statistics and the survey of legal and patent attorney firms. In other words they indicate the percentage of rights for which owners have taken some “formal” action. Firms settle most enforcement actions, including litigation, by negotiation, through commercial agreements, or simply because one party had to withdraw due to cost.

Although the number of patents litigated is only a tiny portion of those granted, this must be seen in perspective. It is the ability to enforce the rights which causes the right to be respected just as the fear of prosecution causes the law to be respected in other areas. Enforcement is a critical element of an effective industrial property system. However, industrial property enforcement is a complex issue that business often misunderstands. A low level of litigation is not necessarily a measure of satisfaction

with the system. A party may avoid litigation because of complexity, excessive cost or uncertainty of result even though the patent or the other right concerned may have important implications for the success or survival of the owner.

3.6 Previous studies

A number of earlier studies have examined the problems faced by firms in enforcing IP rights, or have commented on these problems. The Industrial Property Advisory Committee (IPAC) carried out the most detailed and extensive Australian study, over the period August 1988 to March 1992. Attachment 2 provides information on the IPAC report, its conclusions and its impact.

In 1996 ACIP concluded a review of the petty patent system. The Council noted that this system (which the government is to replace with a new innovation patent system) brings enforcement issues particular into focus. This is because the owners of petty patents are usually small firms having limited financial resources and little IP expertise. Moreover, the commercial stakes involved in any petty patent dispute may be relatively small compared to the costs of taking legal action against infringers.

The council's report discusses a variety of ideas put forward in submissions to the review. There seems to have been a widespread view that making available a cheap and quick 'umpire's decision' would settle many disputes without them going to court. The report also discusses what IP Australia, or some other forum separate from the courts, might play in enforcement actions, but notes the significant constitutional problems of conferring an enforceable jurisdiction on non-judicial tribunals. The report also notes suggestions that conferring jurisdiction on inferior courts might help simplify the initial proceedings. It also mentions alternative dispute settlement mechanisms but notes they will be effective only if both parties wish to make use of them.

4. The core objective

4.1 *The validity of the patent*

Patent litigation almost invariably involves an attack by the defendant upon the validity of the patent, i.e. the defendant seeks to avoid the consequences of infringement by showing that the patent is invalid and should not have been granted. This traditionally involves a reassessment, on a much more elaborate scale, of issues already examined in the Patent Office.

In the whole context of a patent infringement suits, the trail of issues of validity generally occupy the greater part of the cost of the action. By way of example in the Ramset/Advance Building System litigation, (1998, 152 ALR 604) the issue of validity alone has involved: a trial by a single judge of the Federal Court; an appeal to the Full Court of the Federal Court; an appeal to the High Court, and a further hearing by the Full Court of the Federal Court. Thus it may be expected that the cost and complexity of patent litigation would be reduced if the likelihood of a successful challenge to the validity of the patent is reduced.

4.2 It is therefore the core objective of this report

To provide a system for the grant of patents in Australia having a higher presumption of validity than is presently the case.

4.3 The report therefore proposes a number of actions, which taken as a whole, will raise the standard of patents granted by IP Australia and reduce the likelihood of those patents being successfully challenged in the courts. In doing so however, it is necessary to ensure that the procedures of examination and grant are not made so burdensome that the cost of obtaining a patent in the vast majority of cases which are not litigated outweigh the benefits achieved in those cases which are. The balance is not easy to achieve. We must seek to refine the sieve without blocking the filter.

5. Specific issues examined

5.1 Introduction

The context in which Australia's enforcement system operates is very broad. It includes government policies; international obligations flowing, for example, from the Trade Related Aspects of International Property Rights Agreement (the "TRIPS" Agreement); the legal system and its processes; court procedures; the use of alternative dispute resolution mechanisms; and the commercial and IP management strategies local and overseas firms decide to implement.

The council focused much of its initial work on identifying avenues or options that might either reduce the need for enforcement action or litigation, or reduce the cost, delay and uncertainty involved in the enforcement procedures. Some of the issues the council identified in considering this broader approach include:

- the use of commercial strategies other than patents, trade marks and designs by firms that are unlikely to afford legal actions - eg using trade secrets and the first to market strategy;
- the availability and adequacy of insurance schemes to protect against the cost of enforcement actions;
- possible strategies a firm might use to decrease the likelihood of infringement, such as identifying potential competitors in advance of seeking protection, and developing commercial relationships with potential infringers;
- developing commercial relationships with larger firms that will then have an interest in defending IP;
- mechanisms that firms can use to monitor their IP rights and to identify possible infringement;
- identifying all the options available to firms on discovering possible infringement;
- options for managing licence agreements in relation to infringement actions;
- the possibility of infringement actions being carried out on a contingency fee basis;
- options for mediation outside a legal environment.

As its work has progressed, the Council widened its considerations and explored a number of issues. These are discussed below.

5.2 Raising awareness

Although only a relatively small proportion of industrial property owners and users become involved in litigation, those that do can incur significant direct and indirect costs. While improvements to court procedures or use of alternative dispute resolution mechanisms help those who become involved in litigation, they have no benefit for the greater proportion of businesses that become involved in other forms of enforcement.

At present, there is little information available on how Australian businesses manage IP portfolios or enforcement matters. The views from participants of the enforcement workshop, and anecdotal evidence suggests that many management decisions regarding IP enforcement are ad hoc, with many managers preferring to avoid or ignore enforcement issues if possible. A consistent finding of recent reviews and surveys is that most managers and businesses have little knowledge of IP management. Even the owners of IP may have fundamental misunderstandings about the IP system and how it works. For example, around seven per cent of industrial property owners who responded to a recent survey believed that IP Australia monitored industrial property infringement and undertook enforcement action on behalf of the owner.

Knowledge of IP management is particularly important since there are significant costs in time, money and anxiety associated with addressing infringement or enforcement issues, even before litigation. The timing and type of response to enforcement actions are critical to determining the eventual cost to a business. For example, firms can avoid costs associated with product withdrawal if they detect a potential infringement before making significant investments in marketing, or before introducing the product to the market.

If firms are to minimise or avoid the cost of enforcement they must understand how to identify potential risks and how to reduce them. For example, checking patents, designs, trade marks and business names before proceeding with a new idea or innovation may identify possible infringement of existing rights. As well as providing information on potential infringement, such searches can also provide useful market intelligence on competitors and market trends. They should form an integral part of the product or market development.

The enforcement workshop participants noted that obtaining a patent is only one step, and business or inventors need to understand the commercial realities of how to manage the patent. They also noted that the central theme of business IP education and awareness programs should be how IP functions in a commercial context.

The council concluded that the business community needs to better understand the implications and uses of IP rights. General business education programs should include at least a basic component on IP. Furthermore, providers of specific IP education and awareness programs, particularly in tertiary institutions, should be encouraged to include more of a commercial emphasis in their courses to better balance the narrow legal aspects of IP.

The council noted that networking can provide a valuable tool in IP awareness. Industry associations should be encouraged to provide networking opportunities for those with an interest in IP to help information sharing between individuals and businesses.

ACIP notes that IP Australia is currently delivering awareness programs to the business community. The council proposes that IP Australia continue in the role of improving awareness of IP issues, both in delivering programs, and in encouraging education providers to deliver appropriate programs and industry associations to provide opportunities for members. IP Australia should also involve industry and professional

associations such as the Australian Manufacturers Patents, Industrial Designs and Trade Marks Association (AMPICTA), the Institute of Patent and Trade Mark Attorneys (IPTA), the Law Council of Australia (LCA), and the Licensing Executives Society (LES) in these programs.

The council also considers that the judiciary have particular needs relating to IP awareness. Programs directed at these groups could benefit the way the IP system operates in Australia. Programs for the judiciary are discussed in more detail at 5.3.4 of this paper.

Recommendation 1

IP Australia -

- A. develop and deliver education programs designed to help owners of IP rights understand what their right entails, and how to manage their right, including enforcement strategies,***
- B. encourage business and IP education providers to include IP management elements in courses,***
- C. encourage industry associations to provide IP information opportunities for their members,***
- D. work with industry and professional associations such as AMPICTA, IPTA, LCA and LES in the delivery of these programs, and***
- E. work with the Australian Institute of Judicial Administration to develop IP awareness programs for the judiciary.***

5.3 Increasing the presumption of validity of patents

As noted above, a major problem faced by Australian IP owners is the lack of a presumption of validity for patent rights. Overseas experience suggests that an effective way of reducing costs and increasing the predicability of enforcement actions might be to increase the presumptive validity of such granted rights in a way that does not damage the public interest.

One of the main complications in enforcement actions is that the alleged infringer will almost invariably challenge the validity of the right they may be infringing. This adds significantly to the cost and delay involved in reaching an outcome. Not only do the owners of the rights have to argue the case for infringement, they also have to re-establish the validity of their rights. This creates considerable uncertainty because the criteria used by the courts to establish validity often differ from those originally used by IP Australia. Those used by the courts are more strenuous. This is especially relevant with regard to the standard of proof required by IP Australia in order to grant a patent as opposed to that used by the courts when making a decision on the validity of a patent.

This uncertainty, when combined with the potential commercial value of a patent, may provide an incentive to gamble on the outcome of an enforcement action. This is especially likely when one party has sufficient financial resources to allow tactical use of the court procedures to force an outcome. Providing a stronger presumption of validity would reduce uncertainty. This is therefore a core objective of this report as set out in 4.2 above.

5.3.1 The standard of proof and the benefit of the doubt relating to refusal

Section 49 of the Act sets out the conditions for acceptance of a patent. The pattern of court decisions relevant to the benefit of doubt in examination of patents and subsequent acceptance is that the commissioner can only refuse to grant a patent when it is clear that a valid patent cannot be granted¹. Thus the commissioner requires a high degree of satisfaction that an objection exists.

As a result of this decision, IP Australia's practice is to not take or maintain an objection where there is a doubt about the validity of the objection. This effectively creates a standard of proof for examination objections of 'beyond reasonable doubt' before an objection can be taken. The consequence of this is that the standard applied in the Patent office is different from that applied in the courts. Furthermore, the practice is out of step with overseas practice. For example, the UK practice places the onus upon the applicant to demonstrate compliance when faced with a reasonable challenge. This means that objections are taken or maintained according to whether, on the balance of probabilities, they are appropriate.

A tightening of the benefit of the doubt approach would increase the threshold used by IP Australia and change the standard of proof for acceptance so that granted patents would be more likely to be valid. This could be achieved by amending section 49(1) to the effect that the current rules giving the benefit of the doubt to applicants on the issue of novelty and obviousness be set aside.

Recommendation 2

Amend section 49 (1) of the Act to the effect that in considering whether there is a lawful ground of objection, the consideration should be objective and the rule giving the benefit of doubt to the applicant should be abrogated in so far as they relate to novelty and obviousness.

If the threshold for validity of the patent is increased, other parties should have less ground for challenging it on the basis that it is not valid. The council therefore believes that where validity is challenged, the onus should be on the challenger to prove why the patent is not valid. To assist in this it should be made clear in the Act that a granted patent is presumed valid unless a challenger can prove otherwise.

¹ *Commissioner of Patents v Microcell Ltd* (1959) 102 CLR 232.

Recommendation 3

The Act should be amended to state that a patent is presumed valid.

5.3.2 The concept of ‘fairly based’

An applicant may submit a provisional application which sets out the claims of the invention. A full application must then follow within 12 months from the date of lodgement of the provisional application, and must contain a complete specification describing in full the invention claimed. To be able to rely on the earlier priority dates of the provisional application the claims of the complete application must be fairly based on the matter described in the provisional specification. The test for "fair basis" is not defined, however, our courts have consistently had recourse to guidance given by the High Court in England in the Mond Nickel² case where the following tests were propounded.

It seems to me that there is a three-fold investigation which is called for. Firstly, one has to enquire whether the alleged invention as claimed can be said to have been broadly described in the provisional specification, and only if an affirmative answer is given to that question does one proceed to the second question, which is: Is there anything in the provisional specification which is consistent with the alleged invention as claimed? If it is found, upon examination, that the invention as characterised in the claim includes something which is inconsistent with that which is described in the provisional specification, as at present advised I should think that it would be right to conclude that the claim could not have been fairly based upon the disclosure; but, assuming that those two burdens are satisfactorily surmounted, there is, I think, a third matter for enquiry: Does the claim include as the characteristics of the invention a feature as to which the provisional specification is wholly silent? It is with those approaches which I have indicated that I have to consider the submissions which have been made to me in the present case."

A number of patents in Australia have been invalidated by the Federal Court on the basis that the claims in the complete application were not fairly based on the description of the invention given in the provisional application. For example, in *CCOM Pty Ltd v Jiejing Pty Ltd* (1994) 28 IPR 481 (full Federal Court) the applicants put in a provisional application in February 1989 and the full petty patent specification in July 1991. The court found that the petty patent was not fairly based on the provisional specification, meaning that the application's priority date reverted to July 1991. Because the opponents to the patent had marketed their goods in December 1989 they had anticipated the applicant's petty patent. The patent was therefore invalid. Other situations occur in which the patentee's own use of the invention will invalidate their patent if the earlier priority date is not applicable (eg, *Sartas No 1 v Koukourou* 30 IPR 479).

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Current IP Australia practice is to examine the claims against the specification of the complete application, not the provisional application. The exception to this is when the priority date is brought into question, eg, if prior art in the subject was published in the intervening period between lodgement of the provisional application and the full application. IP Australia's position is that where there is no question mark over the earlier priority date then, for examination purposes, the claims in the complete application need only be fairly based on the matter disclosed in the complete application.

Problems may arise however in subsequent proceedings where further evidence is produced which puts the priority date in doubt. ACIP believes this problem could be minimised by IP Australia at least providing a cursory examination of the broadest claim in the complete specifications against the description of the invention in priority documents. This could be most economically achieved by examination of the first leg only of the *Mond Nickel*³ rules. This would entail an examination of the question: 'Is the alleged invention as claimed in claim X (the broadest claim) of the complete specification broadly (ie, in a general sense) described in the body of all priority documents?' Where an examiner has a doubt regarding this point they could raise an objection, thereby providing an opportunity to the applicant to amend the specification and/or claims to avoid invalidity

We understand from IP Australia that there are practical difficulties in the way of such examination in cases where priority is claimed from a foreign application, sometimes in a foreign language. A majority of the cases which have been invalidated through loss of priority date have been cases where an Australian applicant has claimed priority from a provisional application. We therefore propose that the examination for fair basis be limited to cases claiming priority from an Australian provisional application.

Recommendation 4

Amend IP Australia examination practice so that where there is a claim to priority from an Australian provisional specification, examiners will examine the broadest claim in the patent application to check that it complies with the first leg of the Mond Nickel rules, ie, an examination of whether the subject matter of the claim is broadly described in the provisional documents. Where the examiner has a doubt then they should object to it and give the applicant an opportunity to amend the specification.

Recent decisions in *Bristol-Meyers v Faulding* and *General Clutch* also suggested that a claim is not fairly based on the description if there is something not described that is within the scope of the claim. The strict application of this principle would be likely to have the result that most Australian patents are invalid since it is of the essence of international practice that the patentee is required to exemplify how the invention may be carried out but is not required to exhaustively describe all manifestations of it.

³ *RE Mond Nickel Co Ltd's Application* [1956] RPC 189 at 194

The practice in the UK and Europe relating to this type of provision is less strict than the approach taken in Australia. The UK patents act introduced the term 'fair basing' in 1949. Strictly speaking 'fair basing' is no longer a part of the UK law as the relevant provisions have been replaced in the 1977 UK act by the concept of claims 'supported by the description' in s14(c):

14(5) The claim or claims-

- (a) define the matter for which the applicant seeks protection;
- (b) be clear and concise;
- (c) **be supported by the description; and**
- (d) relate to one invention.....

The provision embodies the principle of "fair basis" but appears to be more general than the Australian fair basis provisions as they are currently interpreted by our courts. Although the council cannot predict how Australian courts may interpret wording similar to the UK act, its insertion into the Australian Act will clearly signal a change in intention. The explanatory memorandum and second reading speeches would also indicate to the courts the purpose of the change. The ACIP concluded that the fairly based provisions of the Act should be amended to reflect the wording of the UK act. Such a change would bring the Australian practice into line with European and US practice; the purpose of the change being to lead the courts to a broader and less restrictive approach to the questions of fair basis. Similar changes should be made to the provisions relating to whether the claims of complete specifications are fairly based on provisional specifications and other basic documents.

Recommendation 5

In order to correct the tendency in a number of recent decisions by the courts to overly restrict the permissible ambit of claims and the right to claim priority, replace the 'fairly based' provisions in section 40 of the Act and the relevant regulations with provisions along the lines of s14(c) of the UK 1977 Patents Act. The amendment should clearly express that the claims are not to be confined by a particular disclosure, but may extend to all legitimate expressions of the concept of the invention disclosed.

5.3.3 The court system

The court structure in relation to patent matters is diverse and complex. Currently, matters relating to validity and infringement can proceed to one of the state or territory courts or to the Federal Court, and the case may be heard by judges not expert in IP matters.

In recent years there have been some court interpretations of Australian patent law that have introduced inconsistencies with international trends and these have caused applicants in Australia some difficulties. One example of this is the meaning the courts have given to the term 'comprising' in Australia. Generally speaking, it is international patent practice in English speaking countries to use the term 'comprising' in an application to mean that the specifications includes, but is not limited to those elements following the word. This is an inclusive or non-exhaustive reading of the word. A recent Australian case has interpreted the term to mean only or exclusively those elements. This is an exhaustive or exclusive reading. This interpretation lead to the patent being held not to be infringed.

ACIP concludes that this type of inconsistency can weaken our strong international IP position. This is especially so given the fact that more and more applicants are using the PCT system to file applications in more than one country. This means that one specification will be used in a number of countries. It is true that there is opportunity for the applicant or their agent to amend the specification to accord with local requirements. However, this is a time consuming process and simply adds to the expense of the patent system for applicants. This sort of problem also works against the rationale of the PCT system and general harmonisation moves which are aimed at providing more convenient and cost effective ways of gaining patent protection in one or more countries.

Another example of the problem was described above at 5.3.2 where the Australian 'fair basing' provisions are being interpreted in a way which is inconsistent with international practice.

ACIP considers that this type of problem could be minimised through the development of a core of IP specialist judges in Australia. In order to foster such a development the council would like to see a limitation on the courts that can hear the majority of IP matters. Currently the Act includes as prescribed courts the state and territory supreme courts and the Federal Court. This means there are at least nine fora in which a patent can be challenged on invalidity and other grounds. Although there is degree of specialisation in IP matters within some supreme courts, the council considers that the Federal Court should be the principal court for matters arising under the Act.

ACIP considered whether the Federal Court should be given exclusive jurisdiction in all matters arising under the Patents Act. We concluded that this was not appropriate now since our reason is based on a belief that at the present time, in some states at least, patent infringement actions could be brought in state inferior courts within appropriate jurisdictional limits. Although this inferior jurisdiction is rarely if ever involved in patent matters, it has been used in other IP areas and we concluded that the opportunity to do so in appropriate cases should not be removed unless an alternative inferior jurisdiction is available to hear minor matters at lower cost than action in the Federal Court.

From time to time there have been proposals for the establishment of a federal inferior court system such as a federal magistracy. If this were to happen there may be opportunity to appoint federal magistrates with IP qualifications to hear minor infringement matters and possibly other matters arising under the Act. Until that happens we consider that the present structure should be maintained but that the state courts should not have jurisdiction to revoke a patent. Thus, where in an action for infringement a petition is brought for revocation of the patent (as distinct from a mere defence of invalidity) the matter would be transferred to the Federal Court.

Consequently, the Act should be amended to remove the jurisdiction of state and territory courts to revoke patents. The state and territory courts could still hear infringement matters.

Recommendation 6

Amend the Act to remove the jurisdiction of state and territory supreme courts to revoke a patent.

5.3.4 Specialisation within the Federal Court

ACIP applauds the recent moves by the Federal Court encouraging the specialisation of judges in particular areas of law. It believes, however, that the extent of the specialisation regarding IP matters needs to be enhanced. For example, although specialisation is being achieved in the larger registries of NSW and Victoria, there is still a problem of lack of specialisation in the smaller registries. This could be avoided by encouraging Federal Court IP specialist judges to sit interstate when there is no IP specialist judge in the registry in which the matter is to be heard.

As discussed above, ACIP is of the view that where possible patent related court decisions should generally be consistent with international practices. This is especially so given the degree of harmonisation between national laws to be expected as a result of the various harmonisation treaties currently under discussion. To provide judges with an opportunity to further reinforce their specialisation, IP Australia should work with the Australian Institute of Judicial Administration to develop a program to help Federal Court IP specialist judges keep up to date with international trends. This could include initiatives such as judges participating in local and international IP conferences and other appropriate fora.

Recommendation 7

Encourage the Federal Court to promote further specialisation of IP judges, with initiatives including: specialist judges sitting interstate where there is not a specialist

judge in that registry; and programs to assist specialist judges keep up to date with international trends.

5.3.5 Requirements for disclosure

Another measure that would contribute to a greater presumption of validity is to extend the disclosure requirements for patent applications. At present, the Commissioner of Patents may require an applicant to provide search results from other countries, but is not able to require the identification of other prior art of which the applicant is aware. This information is valuable to IP Australia since it usually restricts its searches to the patent literature unless other material is identified which is of issue. An applicant often becomes aware of additional prior art during the prosecution of an application in overseas patent offices.

One approach would be to move to the US model. This requires applicants to disclose relevant prior art up to the grant of the patent, or to risk losing the patent. However there might be problems with this as the US requires disclosure of any information available to the organisation.

If the Australian legislation required disclosure at the company level it might introduce a number of problems. For example, any large company has enormous amounts of information flowing into it from a large number of sources. The inventor or the corporate patent department may not be aware of some relevant information, even though the other areas of the company have it. We therefore consider that the obligation of disclosure should be restricted to knowledge possessed by the applicant or, where the applicant is a corporation, by a person employed by the applicant who is at the relevant time concerned with the preparation or prosecution of the application.

The council has also concluded that it would also be important to set realistic time limits on the requirement for disclosure. The date of advertisement of notice of acceptance would be a suitable cut off point, since applicants do not know the actual date of acceptance of the application until they receive the notice.

Recommendation 8

Amend the Act to require an applicant, or where the applicant is a corporation, a person employed by that applicant who is at the relevant time concerned with the preparation or prosecution of the application, to disclose to IP Australia any prior art material that has come to their attention in the course of preparing or prosecuting the patent application, and in any corresponding patent application in other countries.

5.4 Appeal mechanisms and procedures

5.4.1 An appeal board

Currently, the hearings function operates within the responsibility of the Commissioner for Patents. The hearings are conducted by senior examination staff who carry out their hearings duties in addition to usual examination duties.

The council concluded that there is a need to strengthen the appeal mechanism to give applicants and third parties greater confidence in the system.

ACIP is concerned that the current hearings process operates too closely with the day to day examination functions of the office, and is not seen as a sufficiently independent avenue for appeal. Furthermore, while the council is satisfied that the staff who are currently involved in the appeal process are highly skilled and competent in the patent examination field, it is concerned that these staff do not always have a high level of expertise in appeals matters. For example, on average, a supervising examiner does not receive any specific formal training on hearings matters and is involved with around five hearings per year.

ACIP considers that while the hearings function should remain the responsibility of IP Australia, it would be better served by using staff who specialise in the function, and are part of an independent unit operating separately from the patent examination function. The Council proposes IP Australia establish a permanent appeal board within the organisation. The board would be independent of the examination area of IP Australia, and report directly to the Director General.

The management of IP Australia has questioned the need for, and value of, the appointment of a specialised and independent appeal board. They say that experience with a permanent hearings branch separate from the examining body during the 1980's was not successful. Reasons given included difficulty in attracting appropriate staff, remoteness and elitism within the hearings branch, absence of transfer of legal knowledge and judgement skills from the hearings officers to the examining corps and difficulties in balancing work loads.

It is also said that the establishment of a separate board would increase work which could not be cross-subsidised from other revenue.

ACIP has considered these objections but does not find them of sufficient weight to justify rejection of the proposed independent board. Indeed, some of the issues raised are regarded by ACIP as positive. It is ACIP's view that the board should be of a trained elite, removed from the day to day operations of the examining branch. It is not, in our view, the function of the hearings and appeals process to act as an educational training ground for examiners. As noted below, examiners may still be involved in the hearing process in advisory or consultative capacities and appeal board members can participate in training examiners in addition to their adjudicatory duties.

These and other issues are matters of management to be addressed by the IP Australia managers.

ACIP does not accept that there should be no cross subsidisation of the increased cost, if any, of the establishment of an appeal board. It is an essential and integral part of the maintenance of a patent system that it is not only fair and objective, but is perceived to be so and that there be a readily accessible and transparent review process. It is quite appropriate therefore that the few cases which require review may, if necessary, be cross-subsidised by the many that do not.

ACIP also notes that the proposal for an appeal board has been universally supported by industry and professional organisations which we have consulted. We further note that independent or quasi-independent appeal boards are established and appear to operate satisfactorily in other major examining patent offices. In particular, we note that such offices are established in the European Patent Office, the US Patent and Trade Mark Office and the Japan Patent Office.

ACIP therefore maintains its view that the establishment of an appeals board is an integral part of the package of reform of the examining process. It will assist in achieving a real and perceived improvement in the standard of Australian patents and the attainment of the core objective set out in paragraph 4.2 of the report. We set out below some proposals for such a board.

5.4.2 Structure and operation of the appeal board

A person appointed by the Director General would chair the board. The chair would oversee cases and advise on procedural matters, but may also hear matters, eg, opposition cases. The board would also have several members (say 4 to 6) who would be full time IP Australia staff. A single member of the board would hear matters such as ex-parte matters, while a panel would hear matters such as re-examination and revocation. A panel would comprise two members of the board, one of which may be the chairperson of that panel and who would have a casting vote. Details are indicated in the table below.

IP Australia would select staff for the board according to criteria that relate to the particular qualities, knowledge and experience necessary to deal with appeal processes. The organisation would provide special training for the appeal board members so that they develop the full range of skills they would need to carry out their function. Training would need to include legal and hearing procedural matters. Preferably, the board should comprise members and staff from a cross section of technologies.

In some instances the board might draw on the technical expertise from within the examination areas of IP Australia to supplement its own resources in an advisory capacity. However, it would not involve an examiner with previous interest or involvement in a case being dealt with by the board.

An appeal board would make decisions on the following matters:

- hearing relating to review of internal decisions of patent examiners;

- disputes relating to requests for extensions of time in opposition matters;
- opposition hearings, including related *ex parte* matters; and
- re-examination and revocation proceedings.

The board would have the same powers that the Commissioner of Patents currently has in relation to hearings, and would be constituted as follows:

Category	Single board member	Two member panel
ex-parte matters, including requests for an extension of time	•	
opposition, re-examination, revocation and other inter parte matters		•

Recommendation 9

Establish an appeal board within IP Australia which reports directly to the Director General of IP Australia, to replace the current hearings function, with the Director General having the same powers that the Commissioner of Patents currently has.

5.4.3 Opposition procedures

The council formed the opinion that opposition procedures need to be streamlined and improved to help increase public confidence in the validity of granted rights and as a result to provide a cheaper form of dispute resolution.

The council considered the issues of pre-grant versus post grant opposition. It generally supported the concept of replacing pre-grant opposition with post grant opposition. An apparent concern identified in the council's deliberation was that under the current pre-grant opposition system, third parties can use opposition procedures to delay the grant of a patent. The major problem with this is that infringement proceeding cannot be initiated until a patent is granted.

The consultation process, however, indicated that industry groups do not support replacing pre-grant opposition with post-grant opposition. In the weight of this opinion, the council decided it could not proceed with this recommendation.

The working party considers that there is considerable scope to improve the current pre-grant procedures, and it encourages the current joint IP Australia/Institute of Patent and Trade Mark Attorneys of Australia review of the issue.

5.4.3.1 De-novo appeal

ACIP has given lengthy consideration to whether or not the cost and complexity of appeals to the Federal Court from decisions taken in the Patent Office can be reduced by limiting the evidence before the court to that which was before the Patent Office.

Presently, all "so-called appeals" proceed by way of de-novo hearing by the court so that the parties are not confined to the issues or to the evidence which was before the Commissioner or his Deputy. Interest groups consulted and members of the working party were divided in their views as to the merit of restricting the material before the court to that which was before the Patent Office, and there was also considerable doubt as to whether or not it would be constitutionally possible to impose such restrictions. The matter was referred to the Australian Government Solicitor for advice and that advice was to the effect that it would be constitutionally invalid to prohibit the court from receiving further material and that there would be some difficulties in the way of imposing a restriction subject to the discretion of the court.

ACIP has therefore not further pursued this question and makes no recommendation with respect to it.

5.4.3.2 Confidentiality

A number of participants at the February 1998 enforcement workshop raised concerns about providing information at hearings when no guarantee can be given that commercial-in-confidence material will be kept confidential. The council appreciates that IP Australia decisions should be as transparent as possible. However, the release of such information does nothing for the effectiveness of the hearings/opposition system. Parties may simply decide to bypass a hearing and take their case straight to a court which does have the power to suppress the release of confidential information. Alternatively the relevant information will not be presented at a hearing with the party taking a gamble that if the outcome of the hearing goes their way they need not appeal any further, but if it does not they will take the matter to a court where they can then safely present the information in confidence.

In recognition of the need for some parties to present evidence which is commercial-in-confidence at hearings and appeals heard by the appeals board the Act should be amended to allow such material to be treated in confidence. Access to that information should also be restricted to the hearing officers and legal counsel appearing for the parties or other persons (such as expert witnesses) specified or agreed.

ACIP has been advised by the Australian Government Solicitor that it would be possible to confer such power on the Director General or his delegates. The Government Solicitor has pointed out certain practical difficulties which would need to be addressed

to implement and enforce orders for restriction of material and these would need to be encompassed in any amendments to the Act and Regulations and other legislation such as the Freedom of Information Act.

Recommendation 10

Provide the Director General, the Commissioner of Patents and an appeal board with the power to restrict access to commercial-in-confidence information provided as evidence at hearings to hearings officers and legal counsel or other specified or agreed persons.

5.5 Additional damages and penalties

The council found that there is industry support for a range of issues surrounding damages and penalties against infringers of IP rights.

Currently, if a patentee wants to recover losses caused by infringement activities, they must take the option of seeking either an account of profits or damages. It is often difficult to calculate realistic figures for those types of compensation. An infringer may therefore choose to infringe a patent knowing that there is little risk of excessive financial penalties. In the US, the concept of "treble damages" for knowingly infringing a patent is well known, and acts as a deterrent. The *Australian Copyright Act 1968* also provides for the award of "additional damages" in appropriate cases.

The council concluded that as a deterrent, the Act should be amended to give the courts the power to award exemplary damages in cases of wilful infringement in addition to ordinary compensatory damages or an account of profits. For example, where it is shown that an infringer had legal opinion that their activities would amount to an infringement and they went ahead with those activities anyway then such a finding would open an infringer to an award of exemplary damages.

ACIP also concluded that stronger sanction provisions should only be implemented if Australia has a more robust patent system which provides a higher degree of validity than at present. The extension to damages provisions, therefore, should only be implemented if most of the other recommendations regarding strengthening patent validity included in this report are implemented.

Recommendation 11

Provided most of the recommendations in this report regarding strengthening patent validity are implemented, amend the Act to insert provisions for exemplary damages along the lines of section 115 (4) of the Copyright Act 1968. This is in addition to the courts' ability to order either ordinary compensatory damages or an account of profits.

5.6 Customs provisions for imported goods

There is an international trend to provide customs protection to discourage the importation of infringing goods. Australia has legislative provisions relating to the customs seizure of imported goods which infringe registered trade marks or copyright material. There is no such provision relating to patents.

The council believes that in line with international trends, provisions enabling customs to seize goods that allegedly infringe a patent should be inserted into the relevant legislation.

The detection of imported goods which infringe trade marks and copyright is difficult but is more straight forward than similar provisions would be for patents. This is mainly because of the problems in: (a) detecting and identifying the infringing goods; and (b) proving the validity of the patent. In the case of registered trade marks and copyright material, the Australian Customs Service relies, to a large extent, on intelligence from the owners/licensees of those rights to target infringing goods coming into the country.

To help ensure the legitimate use of customs seizures the patent provisions, like the trade mark and copyright provisions, should require patent owners/licensees to provide an indemnity for goods seized while they seek an injunction. An indemnity system along the lines of the Trade Marks Act provisions should be provided in the legislation. The seizure provisions would have to comply with the appropriate TRIPS provisions under Section 4: Special Requirements Related to Border Measures.

The council recognises, however, that provisions such as these would be difficult to administer, and that further consideration would need to take place with customs officers and others on how the process would work in practice.

Recommendation 12

Give consideration to amending the Act to reflect the importation of infringing goods provisions of Part 13 of the Trade Marks Act 1995 so that similar provisions apply to infringing patented material. This should include indemnity and seizure provisions.

5.7 Insurance matters

One option available to businesses is insurance to cover against infringement and subsequent litigation. Insurance policies covering the legal expenses for opposition proceedings initiated by other parties are currently available through the private sector.

The council gave consideration to the possibility of imposing a levy on all patent grants. This, however, would not be consistent with the government's policy that its primary role in the IP area is to ensure Australia has effective IP and legal systems.

ACIP supports the government's position that since insurance cover is available through the private sector, rather than the Commonwealth becoming involved, it would be more appropriate for the private sector to continue to handle this type of insurance protection.

However, industry associations, education institutions and IP Australia may wish to include insurance cover as a topic in future IP awareness programs.

Attachment 1

Enforcement Statistics

5.8 Federal Court of Australia

Number of cases filed as a percentage of number of registered rights.

Designs											
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Average
Cases filed	6	3	3	6	8	12	12	13	15	7	
Rights in force	16368	18484	21663	22097	21730	22915	23334	23015	23838	24472	
% litigated	0.04	0.02	0.01	0.03	0.04	0.05	0.05	0.06	0.06	0.03	0.04
Patents											
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	
Cases filed	9	13	22	20	31	27	20	29	39	29	
Rights in force	52774	55757	59228	64070	67845	70516	72809	73593	73739	73884	
% litigated	0.02	0.02	0.04	0.03	0.05	0.04	0.03	0.04	0.05	0.04	0.04
Trade Marks											
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	
Cases filed	3	24	24	42	30	34	49	57	55	59	
Rights in force	120259	125406	131633	139554	144488	153578	162398	177142	185639	197870	
% litigated	0.00	0.02	0.02	0.03	0.02	0.02	0.03	0.03	0.03	0.03	0.03

5.9 Patent Attorney Survey on IP Enforcement

Summary of Responses

	1	2	3	4	5	6	7	8	9	10	11
1 Can you provide an estimate of the number of inquiries concerning enforcement or infringement of IP received by your practice in 1996?	50	100	100	80	40-50	6-10	60	50-100	30	43	-
2 Has the number of inquiries increased over the last few years or remained relatively constant?	constant	constant	constant	increasing	increasing	constant	increasing	constant	constant	slight increase	increasing
3 What percentage of inquiries relate to:											
patents,	5%	20%	5%	1%	60%	100%	3%	10%	5%	10%	50%
trade marks,	70%	60%	70%	90%	20%	-	64%	30%	90%	75%	40%
designs,	0	10%	0	3%	20%	-	3%	20%	-	5%	5%
trade secrets or Confidential information?	25%	5%	25%	1%	-	-	10%	40%	-	-	2%
		-	...	1%	-	-	20%	...	5%	10%	3%
4 What usually prompts the inquiry?	potential infringer wants to check risks	client has heard a rumour concerning infringement	-	infringement damage, loss	desire to enforce rights	threat from another party,	response to letter of demand	infringement, departure of employees	perceived infringement	-	infringement, letter of demand
	owner wants to stop infringement				threat of proceedings	fear of infringing others rights,	becomes aware of infringement				

		nt				desire to protect own rights						
5	What are the main questions asked?	<p>infringer: risks?, how to avoid problems?</p> <p>owners: how strong is my case?</p>	<p>what are the options?</p> <p>costs</p>	<p>strength of case,</p> <p>risk</p> <p>cost</p>	<p>how can I stop the infringement?</p>	<p>time frame; costs,</p> <p>procedures</p> <p>prospects for success</p>	<p>process,</p> <p>cost,</p> <p>time,</p> <p>risks</p>	-	<p>what are my rights?,</p> <p>costs,</p> <p>procedures</p>	<p>cost,</p> <p>outcome</p>	<p>how much will it cost?</p> <p>what are my options?</p>	<p>what will it cost?</p> <p>what can I do?</p>

6	What percentage of inquiries lead to further action?	90%	60%	80-90%	60%	50%	>50%	60%	60%	70%	60%	50%
7	What are the usual reasons for not proceeding to further action?	weak case,	-	strength of case	costs	cost, delays, uncertainty of outcome	cost, negotiated agreement, changing significance	costs, uncertainty	no infringement, difficulty of proof, hopeless Designs Act	cost, risk of failure	cost, uncertainty	cost, unpredictability, lack of a case
9	How many files were raised by your practice for enforcement actions in 1996?	50	-	50	20	60	6	50	35-60	20	32	-
10	What is the ratio of pre-grant to post-grant actions?	20:80	1:5		50:50	50:50	0:100	20:80	25:75	50:50	T 25:75 P 0:100 D 0:100	
11	How effective are pre-grant opposition hearings in limiting the need to use post-grant actions?	generally good	medium to little effect especially with patents	good	very	effective in low costs scenarios	very	not very	-	-	quite effective	extremely effective
12	What percentage of actions were successfully handled by a "warning off letter"?	90%	10%	75%	60%	10%	-	35%	25-30%	60%	65%	-
13	What percentage of actions were settled by negotiation?	90%	90%	95%	95%	50%	-	35%	30-40%	90%	65%	-

14	What percentage of actions proceeded to litigation?	5%	<5%	25%	5%	10%	-	5%	30-40%	30%	35%	-
15	What percentage of actions were ultimately decided by courts?	2%	<1%	1%	1%	5%	-	2%	20%	10%	10%	-
16	What percentage of litigation was lapsed before a court decision was made?	3%	>80%	-	99%	95%	-	80%	-	0	90%	-
17	What are the usual reasons for withdrawing from litigation?	satisfactory settlement; cost and risk	cost; acceptable settlement	cost and risk	rationalism economics, time and costs	cost, change of circumstance	loss of interest for commercial reasons, settlement	cost, delay	settlement	risk of adverse judgement	settlement, cost, merger of parties, settlement elsewhere (international)	-
18	How often do companies use a difference in financial resources and the costs of litigation to force an outcome?	80%	may play a part but rarely a major factor	75%	all the time	very often	-	often	frequently	20%	very rarely	not relevant

19	What are the most common problems you encounter in using the current enforcement processes?	extensions of time in opposition hearings; cost of court proceedings	slow, inflexible procedures	-	difficulty in obtaining extension of time does not make the client more efficient in providing evidence	slow, cumbersome and expensive, doubt that a sensible outcome will be achieved	burdensome procedures, unreasonable restrictions on extension of time	cost to client, delays in process	Designs Act	delay in getting to court, cost of the process	discovery, lack of technical background of the advocate? ?	cost
20	What are the most significant improvements that could be made to the enforcement system?	for opposition more resources for examination, tighter application of time extensions.	more specialist judges, more active case management	-	improve the experience and lateral thinking of examiners, hearing officers and assistant registrars; especially examiners	introduce a patent court similar to UK with specialist judges	simplify procedures, restriction of issues - confine to main points, limitations on discovery	greater emphasis on mediation at an earlier stage	-	streamlining process of getting the case to court	technically qualified judges, limit discovery	patent attorneys to appear in court on behalf of parties, representation inc cost without adding value.
21	What industry sectors	manufactur	consumer	manufactur	publishing	-	pharmaceu	well known	manufactur	merchandi	chemicals,	fashion

or technology areas
make greatest use of
enforcement
processes?

ing

goods

ing, luxury
goods,
wine,
clothing
and
footwear

ticals
biotechnolo
gy

marks

ing,
retailing,
computer
industries

sers, food
producers,
TM users

agrochemi
cals,
pharmaceu
tical,
building
industry,
watchmaki
ng

Attachment 2

The Industrial Property Advisory Committee Report

5.10 Introduction

In 1988 the then Minister for Science asked the Industrial Property Advisory Committee (IPAC) to “...consider and report whether the practices and procedures for the enforcement of industrial property rights in Australia can be improved with regard to ease, cost and timeliness for Australian industry”. IPAC prepared its report *Practice and Procedures for Enforcement of Industrial Property Rights in Australia* following extensive consultation and released its report in March 1992, nearly four years after the minister had commissioned it.

It is interesting that IPAC did not receive any submissions from bodies representing Australian commerce and industry, despite advertising widely and inviting particular bodies to make submissions. The organisations that made submissions or held discussions with IPAC were all legal or industrial property organisations.

IPAC noted that it received very few critical submissions and suggested one reason for this was that the great bulk of disputes do not reach the litigation stage. IPAC also noted a comment made by the Sydney group of the Law Council that IPAC should not direct too much attention to a problem area that they saw as exceptional. This group of the Law Council expressed concern about ‘premature meddling’ with the legal system on the basis of difficult cases.

5.11 Issues raised by the IPAC report

IPAC identified those features of the industrial property dispute resolution mechanism that may cause special difficulties. These were:

- the specialised law often involving difficult questions of definition, ownership, and exploitation;
 - questions of patent validity often involving an evaluative issue, as to whether or not the claimed advance constitutes an inventive step;
 - scientific and technological complexity, with the matters being considered often being at the leading edge of knowledge so that it can be difficult to collect evidence and prepare expert’s reports;
 - the law of evidence, especially the restrictive rules governing hearsay, the evidence of experts and the reception of survey evidence;
 - public interest matters such as the interface between industrial property and trade practices law, or attempts to secure delay and browbeat smaller adversaries;
 - the variety of types of dispute;
 - the adequacy of remedies and the treatment of costs such that a successful litigant may be penalised by inadequate cost recovery.
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The report described what IPAC felt were the desirable objectives for an efficient and effective enforcement system. These were:

- a high degree of certainty and clarity in the law;
- uniformity and compatibility of treatment across courts and tribunals;
- modest cost and limited delay in the resolution of controversies;
- an appreciation by the courts of the industrial property system's policy objectives and its role as an element of competition law, broadly conceived; and
- efficiency of remedies, in the ability to grant speedy injunctive relief and appropriate monetary compensation for, and deterrence of, infringement of rights.

5.12 IPAC's recommendations

IPAC's report contained 23 recommendations, most of which sought to modify aspects of the judicial system to reduce the cost of settling disputes, shorten the length of proceedings, promote the settlement of disputes and economise on court time.

The government did not respond to the IPAC report. One reason for this may be that no substantial action was warranted by government. This was because:

- a number of the recommendations had been overtaken either by current practices and events, or as a result of issues arising from broader inquiries; and
- a considerable proportion of the recommendations related to matters outside the government's direct responsibility.

For example, of the 21 recommendations, 10 fell within the responsibility of the courts and one was a matter for the patent attorney/legal professions. Another three recommendations supported the status quo and did not require any government action to implement them.

The courts have considered many of the IPAC recommendations when formulating changes to procedures for their industrial property lists. Further changes to court procedures that have arisen from broader reviews of the legal system have overtaken other IPAC recommendations.

These changes to court procedures have led to some reduction of cost and delay. Further reductions are likely to occur as the changes take effect. However, the inherent threshold costs of litigation still represent a prohibitive barrier for many industrial property owners seeking to enforce their rights and to others who might wish to test those rights. Many of these people have asked for enforcement mechanisms that better match the value of their intellectual property or the remedies that are available. For example, there have been frequent requests for a mechanism that provides "a cheap, quick umpire's decision" to resolve enforcement disputes.