

SUBMISSIONS  
TO  
INTELLECTUAL PROPERTY & COMPETITION  
REVIEW COMMITTEE  
BY  
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Submissions refer to the sections of the April 2000 interim report.

## General comments

I urge the committee to be circumspect in accepting the concern expressed by members of the legal and patent attorney professions in relation to some of the issues under consideration.

I believe that the professionals are avoiding responsibility for some of the risk involved in creating I P rights and providing advice in relation to I P rights.

### Criticism of Federal Court

The criticism of the federal court arises because Australian practitioners believe the decision reached was incorrect.

The cases that concern is expressed about primarily involve Australian drafted patent specifications as opposed to patent specifications drafted overseas.

My view is that in each of the decisions that have been criticized a large portion of the blame can be attributed to the drafting of the patent specification and the management of the patent creation process. Some blame can also be attributed to the solicitors and barristers in their advice and preparation of the case for hearing. Some blame may be attributed to the Federal Court but to say that the decisions are unpredictable is unfair and misleading.

Both in Australia and overseas the courts place a lot of reliance on what is written in the patent specification and if

the specification is written with this in mind and

the patent draftsman is well aware of the inventive features that are likely to be copied and

is also aware of the relevant prior art at the time of drafting

then the courts both here and overseas are unlikely to come to erroneous conclusions. Judges rely on the quality of the submissions made by counsel and in patent cases the specification forms a major component of the patentees submissions.

Similar criticisms were made in relation to the Designs Act when a number of decisions held designs to be valid but not infringed. In submissions to the Designs law review Committee it was pointed out that none of the design registrations in question included any written statement to aid the judge in interpreting the scope of protection. It is my experience that such statements had the effect of making the scope very clear to both potential infringers and the registered owners. Because some practitioners did not provide written statements there was predictable confusion over the scope of protection which of course leads to disputation.

### Disclaimers for trademarks

As pointed out in my previous submissions disclaimers are only occasionally called for in the USA and are not required in Europe. Practitioners have learned to cope.

Under the 1955 Trademarks Act the practice of requiring disclaimers increased prosecution costs when applicants disagreed with examiners and led to many trademarks that were in use not being registered. The European alternative is to register most marks so that it is easy to determine what marks are in use which is the first step in assisting businesses to avoid trouble.

I do not believe that providing practical advice to SME's on trademark issues is that difficult. Unlike patents trademark values correlate with length of use and

sales volumes which means that the more valuable the trade mark the wealthier the owner and the more they can afford detailed and comprehensive analysis. Most businesses avoid trademark conflicts and when they do occur it usually involves valuable consumer brands.

Thus on balance I believe that by avoiding disclaimers the arguments about what components of a registered mark are able to be copied are postponed until they need to be argued between two parties who are able to assess the commercial importance of the argument before committing themselves to legal expense. At this point the parties are more likely to be able to afford such costs which is not the case at the time of adoption of a trademark when little use of the mark has occurred.

### **Sec 51(3)**

From a standpoint of economic theory and competition law I am in agreement with the committee's recommendation.

**But there is a risk that the recommendations will have an adverse effect on the research and commercialisation activities of SME's and Research Institutes.**

There is a lack of confidence in the ACCC developing useful guidelines. Thus the committee needs to be prescriptive in relation to those guidelines.

Based on the comments at the Melbourne seminar I believe that there is a need to more clearly identify the circumstances in which the competition test is likely to be breached. There is still unnecessary concern by new startups and CRC's about the removal of the sec 51(3) exemptions. It appears that SME's are reluctant to seek or unable to afford detailed legal advice on these issues and often do not realise that they run little risk of breaching the TPA in the early stages of new product development

I again ask the committee to clearly state that I P agreements relating to the introduction of new products or processes to the Australian market are procompetitive and that any arrangements relating to price, quantity or horizontal arrangements can not be anti competitive until the market for that product or process becomes substantial.

In this regard I refer you to my earlier submissions concerning the phase in the product life cycle at which arrangements are in force.

#### ***Product life cycle***

*I P protection encourages new players and the launch of new products because it protects the investment made to enter the market. Thus I P is pro-competitive in the early to middle phase of the product life cycle.*

*In the mature phase I P protects the "cash cow" from direct competition.*

*This is least expensive for long lived copyright works and trademarks.*

*For patented products the original patents have generally expired by the time the mature stage is reached and the expensive path of further research and patenting to develop and protect improvements is required. This is not so anti-*

*competitive as it seems, as it is also possible for third parties to develop and patent their own improvements.*

*Thus the most likely situation for I P to restrict competition is when products are in the mature phase of the product life cycle. Copyright and Trademarks at that stage of the product development protect the product's marketable features rigidly and provide very effective protection from competition. Patents at the mature product stage can be avoided by designing around the patent, because the patented features of the product are not so rigidly defined in the mind of the purchaser. It is easier to persuade a consumer to buy a functional equivalent product than it is to persuade the consumer to switch from Coca Cola or Mickey Mouse because consumers are more loyal to the brand or the image than to the function.*

## **PATENTS**

I query why the Australian Patent Office needs to increase the level of presumption of validity.

Most patents have equivalents in other major patent jurisdictions. If the scope of the granted claims in either the USA, Europe or Japan is narrower than in Australia then this is an indication of possible partial invalidity.

- If the scope of the Australian patent is wider than that of the USA or European equivalent and
- it is only because of that wider scope that there is risk of infringement
- then: it is unlikely that the patentee would initiate litigation unless there were special valid circumstances for the wider scope.

This means that once again the determining factor is the state of the patents in the major industrial markets overseas.

**The benefit of the doubt given by the Australian office is of little significance in influencing the decision to commence infringement or for a patentee to instigate litigation.**

In a globalised world economy the decision to infringe a patent or to commence litigation will be made in many instances on the basis of the value of doing that in a market other than the Australian market.

Therefore if the costs of implementing the increased presumption of validity is high I believe that the benefit is if any does not justify the costs.

## **ENFORCEMENT OF I P RIGHTS**

The proposal in the interim report to utilise the proposed Federal Magistrate court is not likely to provide a satisfactory dispute resolution mechanism.

Proposals of this kind have been made on several occasions in the past and have always been rejected.

From what I have heard the English county patents court which is a similar arrangement to that proposed has not had a successful appeal record which means that litigants lose faith in the forum.

Patent infringement disputes are commercial disputes which are generally capable of resolution by mediation or settlement but which can be distorted by

the difference in the legal and monetary resources of the participants. If the lower court often gets the answer wrong as appears to be the case in the UK then the low cost system is seen to be of little value.

It is because of the previous resistance to the lower cost tribunal approach and the apparent failure of the UK county patents court that I proposed an alternative means of restoring the balance in bargaining power between disputing parties so that the legal issues alone would be the deciding factor. This can be done by publicly funding SME's or research institutes legal costs or alternatively increasing the penalties for the larger party if it loses the case.

### **Sec 119- Prior Secret Use**

This section replaced the alternative provision that prior secret use was a ground of revocation of a patent. That provision was seen as unfair to a patentee and not an encouragement of patenting although it enshrined the common law policy of not preventing someone from continuing to do what he had done before a patent was granted.

The doubts about the interpretation of section 119 arise from the lack of English or Australian case law and the absence of codification of the section.

The section should be amended to cover the major issues of

1. the scope of the rights of the secret prior user not to be impeded in continuing to practice the secret process
  2. the assignability of that right
- without making the option of secret use more attractive than patenting.

Patenting has the public benefit of publication to advance public knowledge in return for a limited term monopoly.

Secret use has an indefinite term and no disclosure for public benefit.

The rights should only apply to allow the prior secret user to continue what was done prior to a patent being granted. Thus if the prior secret use was only experimental and no product or service was sold then the prior secret user should have no right to commercially exploit its secret just as a party who's patent is filed one day later than a competitors patent loses the right to market its development.

If the secret process was used to make a product or provide a service for commercial return then the secret user should be entitled to continue to do that but not to vary the process in a way that would be functionally different but still infringe the patent. If the prior secret user wanted to use an improved version that was covered by the patent it could have the right to request a licence from the patentee.

The prior secret use rights should only be assignable with the business.

Licensing of the prior secret use rights should not be permitted after the patent is granted as the subject matter is no longer confidential information.