



ADVISORY COUNCIL ON INTELLECTUAL PROPERTY

---

**Should the jurisdiction of the Federal Magistrates  
Service be extended to include patent, trade mark  
and design matters?**

---

**November 2003**



## TABLE OF CONTENTS

<b>ABBREVIATIONS</b>	<b>1</b>
<b>TERMS OF REFERENCE</b>	<b>2</b>
<b>EXECUTIVE SUMMARY</b>	<b>2</b>
<b>LIST OF RECOMMENDATIONS</b>	<b>6</b>
<b>INTRODUCTION</b>	<b>9</b>
<b>4.1 Relevant legislation</b>	<b>9</b>
<b>4.2 Current jurisdiction system - patent, trade mark &amp; design rights.</b>	<b>9</b>
<b>4.3 Enforcement</b>	<b>10</b>
<b>4.4 Nature and objectives of the Federal Magistrates Service</b>	<b>10</b>
<b>BACKGROUND</b>	<b>13</b>
<b>5.1 Review process undertaken</b>	<b>13</b>
<b>ISSUES</b>	<b>14</b>
<b>6.1 Overview of concerns of IP right holders and other stakeholders.</b>	<b>14</b>
6.1.1 Time and cost of proceedings	14
6.1.2 Complexity	17
6.1.3 Decisions that are certain and consistent.	19
6.1.4 IP Expertise	20
6.1.5 Differing perspectives	22
<b>6.2 Round-table discussions.</b>	<b>24</b>
6.2.1 Jurisdictional aspects	24
6.2.2 IP Expertise of Magistrates	24
6.2.3 Cost, time, complexity	25
6.2.4 Procedural aspects	26
6.2.5 Alternate dispute mechanisms	27
<b>6.3 ACIP's Considerations</b>	<b>29</b>
6.3.1 Extending the jurisdiction.	29
6.3.2 Streamlining court processes and procedures	32
6.3.3 Alternate Dispute Resolution Mechanisms	34
6.3.4 Awareness and education	36
6.3.5 Monitoring and research	37
<b>Attachment A: Issues Paper Submissions, Consultation and Circulation</b>	<b>38</b>
<b>Attachment B: Discussion Paper Submissions, Consultation and Circulation</b>	<b>40</b>
<b>Attachment C: General Federal Law Fees</b>	<b>42</b>
<b>Attachment D: An overview of processes and procedures in the High Court of the Chancery.</b>	<b>43</b>
<b>Attachment E: Overview Alternate Dispute Resolution Mechanisms.</b>	<b>44</b>
<b>Attachment F: Related reviews</b>	<b>46</b>

## Abbreviations

AAT	Administrative Appeals Tribunal
ACIP	Advisory Council on Intellectual Property
ADR	Alternate dispute resolution
A-GD	Attorney-General's Department
ALRC	Australian Law Reform Commission
FCA	Federal Court of Australia
FICPI	Australian Federation of Intellectual Property Attorneys
FMS	Federal Magistrates Service
IP	Intellectual Property
IPRIA	Intellectual Property Research Institute of Australia
IPTA	Institute of Patent and Trade Mark Attorneys of Australia
LCA	Law Council of Australia
SMEs	Small to Medium Enterprises
TRIPS	World Trade Organisation General Agreement on Trade-Related Aspects of Intellectual Property
UK	United Kingdom

## Terms of reference

Parliamentary Secretary Warren Entsch, having responsibility for patent, trade mark and design matters within the portfolio of Industry, Tourism and Resources, asked the Council in early 2001 to:

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

## Executive Summary

*"The ability to judicially safeguard private intellectual property assets makes these assets valuable instruments for national economic growth. When parties are secure in the belief that their intellectual property assets can be protected through judicial action, these assets become magnets for investment funds."*<sup>1</sup>

Providing a framework for the effective enforcement of intellectual property (IP) rights is accepted as crucial to the operation of any IP system. If owners of IP rights cannot enforce them in a speedy and cost efficient manner with a predictable outcome, then their benefit to society is significantly undermined and their effect on promoting Australia's economic performance reduced. Businesses are unlikely to seek to innovate and improve upon their existing capital unless their IP rights are enforceable in *real terms*.

Economic long-term growth arises predominantly from technological advancement. An effective IP enforcement system is essential to encourage an optimal level of innovation and technology transfer and consequent economic growth. This is recognised internationally and reflected in most governments currently looking to strengthen their IP systems. Moreover, *effective* enforcement procedures are required under Australia's treaty obligations through the General Agreement on Trade Related Aspects of Intellectual Property (TRIPS).<sup>2</sup>

In recent years there have been repeated calls to have IP matters heard by a Federal inferior court structure such as the Federal Magistrates Service (FMS) in the belief that this might provide a solution to realising a more effective IP enforcement regime in Australia.

The Advisory Council on Intellectual Property (ACIP) recognises that enforcement is vital to stimulating investment and it is keen to find ways to help ensure the viability of the IP system. After considering the issues raised in submissions and consultations, it became obvious to ACIP that there is no simple, easy or comprehensive answer to the problems that were commonly raised as being impediments to the effective enforcement

<sup>1</sup> P 268; Sherwood, Robert; *Intellectual Property Systems and Investment Stimulation; The Rating of Systems in Eighteen Developing Countries*; 37 IDEA 261 (1997).

<sup>2</sup> Article 41.1 TRIPS.

of IP rights. These problems of cost, complexity, timeliness, uncertainty of outcome and judicial expertise are of course not confined only to the enforcement of IP rights.

ACIP believes there are merits in extending the jurisdiction of the FMS to patent, trade mark and design matters. ACIP believes that providing this option to IP right owners may facilitate greater access to enforcement procedures. Current indications are that the FMS produces a faster, cheaper alternative adjudication to the present Federal Court of Australia (FCA) system. ACIP is hopeful that a similar result will ensue for disputes involving IP matters. In addition, the FMS may prove to be a less intimidating prospect for many IP right owners thus providing an alternate avenue to those who would possibly not have pursued their dispute through the existing court processes. ACIP notes that the jurisdiction of the FMS has recently been extended to include copyright civil matters.

ACIP is aware that if this judicial avenue is to be utilised by Australian businesses and their IP and legal practitioners, it must be a real and credible option. Furthermore, parties need to be aware of the options open to them and to have easy access to information about the dispute processes.

To avoid concerns that the expansion of the jurisdiction of the FMS to IP matters may create an additional layer of judicial decision-making, leading to more costs and delay for litigants, ACIP recommends that an appeal from the FMS in any action with IP issues should be to the Full Court of the Federal Court. Furthermore, ACIP recommends that such jurisdiction should be exercised concurrently and that the courts should have the power to refer matters between jurisdictions, if appropriate. ACIP recognises that a decision by the FMS to refer a matter to the FCA will incur additional costs for the parties and this could, in some instances, place an untenable financial burden on some small to medium- sized enterprises (SMEs). Whilst this is not a desirable outcome, it may be an unavoidable consequence in some disputes. ACIP believes it is essential for the courts to have the discretion to refer matters between jurisdictions where the courts deem it is necessary, even if this may sometimes run counter to the intention to provide the lowest cost adjudication option. ACIP encourages the FMS and the FCA to adopt a practice of not allowing an appeal against a decision by a Federal Magistrate or a Federal Court Judge to transfer a matter to another court.

The perceived lack of IP knowledge and expertise in the judiciary was an issue of raised frequently throughout the review process. Many called for the appointment of judges and/or magistrates with IP expertise and/or knowledge in the expectation that more certain outcomes will result. Many expressed the belief that without this element, it would not be appropriate to extend the jurisdiction of the FMS to patent, trade mark and design matters.

ACIP encourages the appointment of judges and magistrates with IP expertise to both courts. ACIP notes that judicial appointments are not currently made on the basis of 'specialist' knowledge and that the judiciary currently deals with factual and legal complexity in many areas of litigation. Although it is noted that the practice is not to appoint 'specialist' judges, ACIP believes that when appointees are drawn from more generalist jurisdictional areas, that consideration should be given to appointments from the field of commercial law that encompass expertise in IP matters.

ACIP accepts it is desirable that the judiciary hearing IP cases have familiarity with concepts of IP laws, and particularly patent law. 'Specialist' knowledge is built up over time and ACIP is aware that a number of judges in the FCA have developed a special interest/knowledge in IP matters. Given that a number of FCA judges have developed IP expertise over time, ACIP believes it is not beyond the FMS to also develop similar expertise. ACIP recognises that no judge or magistrate can be expected to be familiar with all the different technologies involved in patent cases and it encourages the courts to seek advice from independent technical experts to assist them understand any technology based issues relevant to the case.

ACIP also recognises that the mere extension of the jurisdiction of the FMS to IP matters will not resolve the current problems. Consequently ACIP has taken a broader and more holistic approach to the review and canvassed other methods for improving consistency, accessibility and equity for IP right owners. Proposals to further streamline the existing court processes and procedures and for the courts to adopt a more pro-active approach to case manage IP matters to ensure that only critical issues are litigated, are seen as some positive options.

ACIP wishes to specifically encourage a greater use of alternate dispute resolution (ADR) mechanisms in both the FCA and the FMS. Increased encouragement of, or the mandatory requirement for, litigants to make use of ADR mechanisms early in the dispute process should further reduce costs. Early use of ADR is likely to lead to earlier resolution of IP disputes, because at the very least it offers the opportunity to clarify those issues in dispute. In addition, increased use of ADR offers the opportunity to reduce pleading times by identifying the relevant issues genuinely in dispute between the parties.

ACIP believes that by encouraging the early use of ADR, and creating a choice to pursue an action in either the streamlined FCA or the FMS, will go some way toward assisting many IP right owners ensuring a speedier and more cost efficient resolution of their disputes. This has potential benefits for all litigants and particularly so for SMEs.

Throughout the review process, ACIP welcomed the interest and involvement by both the courts and particularly appreciated their contributions to ACIP's Round-table consultation process. ACIP notes that the FCA has already adopted practices to streamline court procedures and has indicated a willingness to consider additional mechanisms. As a direct result of the Round-table, the FCA sought a dialogue with the IP professions to explore further options to facilitate processes and to make better use of existing procedures.

The handling of IP litigation by the courts over the years has attracted some criticism. ACIP is concerned at the high level of Australian patent cases (up to 80%) that are reportedly unsuccessful in litigation in the FCA. This high failure rate has given rise to suggestions that the Court is unsympathetic, in a systemic way, to patent disputes<sup>3</sup>. There may be many and varied reasons for this high failure rate, and such a rate may be warranted. However, it would be most unfortunate if a financially deprived company or business did not survive a costly and unsuccessful pursuit of justice in circumstances

---

<sup>3</sup> Drummond, The Hon Mr Douglas, Judge of the Federal Court of Australia, "Are the Courts Down Under properly Handling Patent Disputes?" *Intellectual Property Forum*, Issue 42 September 2000. A paper presented at the 14<sup>th</sup> Annual IPSANZ Conference, 14-16 July 2000 Queensland.

where the adverse decision of the court was seriously flawed.<sup>4</sup> ACIP hastens to add that it does not suggest that the courts should lean toward reflecting Australia's national economic interests at the expense of a just and appropriate decision. However, it does suggest that a closer examination of this matter may be in order to determine causes and possible remedies and to ensure the IP system maintains an appropriate balance. ACIP believes that this is an area of research that a research body such as the Intellectual Property Research Institute of Australia (IPRIA) could usefully undertake.

Throughout the consultation process ACIP became aware that many users of the IP system, including legal and IP professionals, may not be fully aware of all court processes and procedures or the most effective ways to utilise available dispute settlement systems. ACIP seeks to encourage more extensive education for users of the system to facilitate the most efficient use of dispute resolution mechanisms. ACIP also encourages the courts and the IP professions to maintain an ongoing dialogue regarding changes to court processes.

ACIP's recommendations consider the complexity of this problem and take the first steps toward improving the accessibility of the system for all its users. ACIP considers that should these measures be introduced then they should be carefully monitored over the ensuing three to five years to evaluate whether costs to users of the system are significantly reduced.

The pursuit of any matter through the court system is an adversarial process requiring the involvement of people with a range of skills and expertise. The process is often complex, protracted, costly, and with no certainty of outcome. Any recommendations that ACIP makes cannot wholly resolve the problems raised as they go to the very basis of our judicial process. At best, it can make recommendations that provide opportunities to reduce costs, simplify procedures and make for a speedier process and as a consequence, perhaps make the system a more accessible option for individuals and SMEs.

The relative success of the changes ACIP recommends will depend as much on an acceptance by the judiciary of the need for both cultural and procedural changes, as on the acceptance of such changes by IP and legal professionals and Australian businesses.

---

<sup>4</sup> IPTA



## List of Recommendations

### Recommendation 1

#### *Jurisdictional Issues.*

- 1.1. The jurisdiction of the Federal Magistrates Service should be extended to include patent, trade mark and designs matters.
- 1.2. The jurisdiction of the Federal Magistrates Service should be concurrent with the jurisdiction of the Federal Court of Australia in patent, trade mark and design matters.
- 1.3. An appeal from a decision of the Federal Magistrates Service in relation to patent, trade mark and design matters should be to the full court of the Federal Court of Australia.
- 1.4. Provision should be made to enable patent, trade mark and design matters to be transferred between the Federal Magistrates Service and the Federal Court of Australia where it becomes apparent to the Court in which the matter is brought that it could be dealt with more appropriately by the other court.
- 1.5. A decision made by a Federal Court Judge or a Federal Magistrate, on a request by either party to a dispute to transfer a matter to another court, should not be appealable.
- 1.6 In addition to the Federal Magistrates Service building on and expanding its own expertise in IP matters, ACIP recommends that magistrates with IP expertise be appointed to the Federal Magistrates Service at an early stage.

### Recommendation 2

#### *Court Practices and procedures*

- 2.1. The Federal Magistrates Service and the Federal Court of Australia should be encouraged to ensure that they continue their Court practices and procedures to encourage active case management of disputes involving patent, trade mark and design matters to ensure matters are resolved without unnecessary delay.
- 2.2. The Courts should be encouraged to continue to streamline their practices and procedures and, in particular, to take measures that may include:
  - using their existing powers and penalties more effectively to assist in reducing unnecessary, excessive or extravagant grounds and evidence being filed with the courts, particularly where those grounds and evidence are not relied upon by the party at trial;
  - using court-appointed experts to assist the courts, particularly with technical aspects of patent cases;
  - encouraging the use of expert witnesses by the parties early in the process to refine the technical issues genuinely in dispute;

- considering having expert witnesses give evidence together;
- encouraging expert witnesses to reach agreement as early as possible on core technical issues genuinely in dispute, and upon those technical issues not in dispute;
- limiting expert witnesses, where appropriate to do so, to one expert witness per issue;
- requiring parties to provide a comprehensive outline of their cases at the first directions hearing;
- setting a trial date and a timetable for discovery, affidavit evidence etc at the first directions hearing;
- limiting unnecessary or prolonged discovery;
- that discovery be the exception rather than the rule;
- requiring comprehensive written submissions on fact and law and a reading list of key documents well in advance of the commencement of the trial;
- requiring counsel to confine oral submissions to the outline of issues covered in the written submissions; and
- intervening in relation to cross-examination and not tolerating lengthy and/or unnecessary cross-examination.

### **Recommendation 3**

#### *Alternate Dispute Resolution*

3.1. The Federal Magistrates Service and the Federal Court of Australia should be encouraged to require parties involved in patent, trade mark and design matter disputes to take part in Alternate Dispute Resolution (ADR) processes in the early stages of the dispute process, and where appropriate, at first directions hearing.

3.2. The Federal Magistrates Service and the Federal Court of Australia should be encouraged to use ADR processes in conjunction with existing court processes and should not allow the parties to use the ADR processes to create unnecessary delays or increase the financial burden on opponents.

3.3. Mediators experienced and knowledgeable in IP matters should be appointed to manage dispute resolution processes in IP cases.

### **Recommendation 4**

#### *Education and awareness*

The Federal Court of Australia and the Federal Magistrates Service should be encouraged to:

- implement education processes to inform the relevant IP professions as to changes to court rules and how they might best utilise the system;
- actively educate all parties, and particularly disputing parties, on the use of alternate dispute resolution mechanisms to resolve IP matters; and
- undertake a continuing and open dialogue with the IP professions to help advise on ways that the process and procedures involved in IP litigation

might be streamlined to help reduce costs, time, complexity and uncertainty of outcome.

## **Recommendation 5**

### ***Monitoring and research***

ACIP recommends that IP Australia contract a research study, by an appropriate research body such as the Intellectual Property Research Institute of Australia (IPRIA), into the measures used by Australian SMEs to enforce their IP rights. The study should include the extent of, and reasons why, some SMEs do not pursue the enforcement of their rights. The study, or additional research, should also examine the handling of IP litigation by the Australian courts over recent years, and particularly the handling of patent cases, to identify trends and impacts.

If recommendation 1.1 is accepted, ACIP recommends that there be a review three years after the extension of the FMS jurisdiction to evaluate whether the extension of jurisdiction has achieved the original objectives and to identify any further steps that may be appropriate.

## Introduction

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.

### 4.1 Relevant legislation

It should be noted at the outset that although IP rights extend beyond patents, trade marks and designs, this paper and ACIP's review is only concerned with those rights. That is, ACIP's review is only concerned with matters arising under the *Patents Act 1990*, the *Trade Marks Act 1995*, the *Designs Act 1906* and relevant regulations.

ACIP notes that the *Designs Act 1906* is undergoing major legislative changes which will result in the introduction of a new act and that the recommendations contained in this report apply equally to that new legislation.

### 4.2 Current jurisdiction system - patent, trade mark & design rights.

The following briefly outlines the jurisdiction of the courts in handling IP matters.

#### Civil proceedings

As a general rule civil proceedings under the patent, trade mark and design statutes may be commenced in a 'prescribed court' defined to mean the Federal Court or a Supreme Court of a state or territory. These proceedings include:

- actions for non-infringement declarations;
- actions for the rectification of the designs or trade mark registers or for the revocation of a patent.

Proceedings may be transferred between prescribed courts and a single judge exercises jurisdiction.

Infringement proceedings may be instituted in any court, whether prescribed or not, as may proceedings in respect of groundless threats.

An appeal lies with any of these proceedings to the Full Court of the Federal Court or, by special leave, directly to the High Court.

#### Criminal proceedings

Under the patents, trade mark and designs legislation prosecutions are specifically prohibited from being commenced in the Federal Court and must therefore be initiated in a state court.

#### Decisions of Administrative Bodies

Under the patent, trade marks and designs legislation, administrative bodies such as the Commissioner of Patents are empowered to make various decisions as to the creation,

subsistence and compulsory licensing of rights as well as on matters such as the right to intervene or the extension of time limits.

Appeals against substantive decisions (decisions that relate to according and dividing IP rights) lie with the Federal Court and in turn with leave to the Full Court of the Federal Court and then the High Court with special leave.

The statutes also confer on the Administrative Appeals Tribunal (AAT) the power to review certain decisions. See *Patents Act 1990* s 224, *Trade Marks Act 1995* ss 175, 180, 224, 227 and *Designs Act 1906* s 40(K). The role of the AAT is to review the merit of administrative decisions (eg Appeals against refused extension of time requests), and not to adjudicate rights.

Any decision of an administrative character may be reviewed by a judge of the Federal Court under the *Administrative Decisions (Judicial Review) Act 1977* (Cth) under one of the grounds for review set out in ss 5-7. Judicial review may also be sought in the same court under s 39B of the *Judiciary Act 1903* (Cth). It is also worth noting that appeals from the AAT are directed to the Federal Court.

### **4.3 Enforcement**

The 'enforcement' of intellectual property rights is often thought to be synonymous with litigation, however, it in fact encompasses a much broader range of actions. There are a number of legal, administrative and commercial strategies that can be used to enforce or defend an intellectual property right or to test its validity. These include pre-grant opposition, warning letters, commercial negotiations, licensing negotiations, ADR mechanisms, mediation and litigation.

For the purpose of this paper, enforcement of intellectual property rights refers to actions prescribed in the patents, trade marks and designs legislation as they relate to pre- and post-registration adjudication actions, including administrative procedures, to obtain, defend and enforce intellectual property rights, or test their validity.

### **4.4 Nature and objectives of the Federal Magistrates Service**

The legislation to establish the Federal Magistrates Service, the *Federal Magistrates Act 1999* and *Federal Magistrates (Consequential Amendments) Act 1999* received royal assent on 23 December 1999 (and the Service began hearing cases in July 2000).

The Federal Magistrates Service was established to provide a quicker, cheaper and more accessible forum for dealing with less complex family law and general federal law disputes. It was also established with the intention of easing workload pressures on the Federal Court and the Family Court, and allowing those Courts to focus on the more complex matters that require the attention of a superior court. The Federal Magistrates Service has developed procedures that aim to be as streamlined and as user-friendly as possible, reducing delay and cost to litigants.

The Government initially appointed 16 Federal Magistrates including the Chief Federal Magistrate. In May 2003 the Government announced that this number would increase to 19 with the appointment of new Federal Magistrates in Adelaide, Melbourne, Newcastle

and south-east Queensland. Federal Magistrates are located in all States except Western Australia (where the FMS cannot exercise family law jurisdiction), including some regional centres. Each Magistrate conducts regular circuits to regional areas throughout their State and hears cases using video and audio links wherever possible, particularly in circuit matters.

**Key feature of the FMS's operations**

The judicial workload of the FMS is intended to be characterised by a high volume of matters of relatively low complexity.

**Current Jurisdiction**

The jurisdiction of the Federal Magistrates Service is concurrent with that of the Family Court and the Federal Court. It has no jurisdiction that is exclusive to the Service. Matters filed in the Federal Magistrates Service which are not considered suitable for the FMS because of their complexity/likely duration can be transferred to the Federal or Family Court (whichever has jurisdiction). Similarly, there are provisions for transfer from the superior courts to the Federal Magistrates Service of less complex matters within the Service's jurisdiction.

The Federal Magistrates Service has concurrent jurisdiction with the Federal Court in the following matters:

- Divisions 1 and 1A of Part V of the *Trade Practices Act 1974*, being the consumer protection provisions, with power to award damages up to a maximum of \$200,000;
- matters arising under the *Bankruptcy Act 1966*;
- applications made under the *Administrative Decisions (Judicial Review) Act 1977*;
- appeals from the Administrative Appeals Tribunal which are transferred to the Federal Magistrates Service by the Federal Court;
- civil matters under the *Copyright Act 1968*;
- unlawful discrimination matters under the *Human Rights and Equal Opportunity Commission Act 1986*;
- matters arising under Part 8 of the *Migration Act 1958*; and
- matters under section 55A of the *Privacy Act 1988*.

The main areas of family law in which the Federal Magistrates Service exercises jurisdiction are:

- applications for dissolution of marriage;
- property disputes (the parties' consent is required if the value of the property exceeds \$700,000);
- enforcement of orders made by the Federal Magistrates Service or the Family Court; and
- matters arising under child support legislation.

Other areas of suitable general federal law jurisdiction will be considered from time to time for the Federal Magistrates Service where they involve matters of low complexity.

### **Appeals**

Appeals as of right from final decisions of Federal Magistrates may be made to the Federal Court or the Family Court, depending on the nature of the case. As with decisions of judges, leave is needed to appeal from interlocutory decisions.

To avoid adding an additional layer of judicial decision-making leading to higher costs and delay for litigants, an appeal from the Federal Magistrates Service lies to the full court of the Federal or Family Court. The Chief Justices of the Federal and Family Courts have a discretion to allow such appeals to be heard by a single judge. Whether heard by a single judge or a full court, any further appeal is to the High Court, by leave.

## Background

### 5.1 Review process undertaken

Parliamentary Secretary Warren Entsch, has responsibility for patent, trade mark and design matters within the Industry, Tourism and Resources portfolio. In early 2001, Parliamentary Secretary Entsch asked ACIP to consider and report on whether any practices and procedures relating to the enforcement of patents, trade marks and designs in Australia could be appropriately referred to the Federal Magistrates Service.

In July 2001 ACIP commenced the Review by circulating an Issues Paper to a number of interested parties to seek their comments. The Issues Paper stimulated public discussion and ACIP received a number of written submissions addressing the concerns raised. ACIP also held a series of consultations with interested parties including the Institute of Patent and Trade Mark Attorneys, the Law Council of Australia, the Federal Court of Australia and the Federal Magistrates Service.

A listing of submissions and participants in the consultation process in response to the Issues Paper is at *Attachment A*.

It was clear to ACIP from the submissions received and consultation conducted that there was a strong divergence of opinion as to whether the jurisdiction of the Federal Magistrates Service should be extended to include patent, trade mark and design matters. These differing views were in respect of a number of issues ranging from the nature and extent of difficulties experienced with the current system to the potential solutions that could be offered to IP rights holders.

As a result ACIP prepared and circulated a Discussion Paper in July 2002 to canvass attitudes to the specific issues raised. The Discussion Paper called for written submissions by 30 August 2002, and proposed that an open forum seminar discussion be held in Melbourne in October 2002.

ACIP received ten submissions in response to the Discussion Paper and from these it was even more apparent that many parties did not share a common understanding of current enforcement problems and current court processes. ACIP considered that an open forum discussion in the format of a one-day Round-table attended by the key players might help to establish some common understandings and possibly result in the development of positive solutions. The parties were encouraged to attend the Round-table in Melbourne on 20 November 2002. A listing of submissions in response to the Discussion Paper and participants in the Round-table consultation are at *Attachment B*.

The Round-table consultation proved to be instructive, very productive and a unique opportunity for a range of interests to further ways to help address some IP enforcement issues. ACIP would like to record its thanks and appreciation for the open and positive contributions made by all those who attended. ACIP is especially appreciative of the involvement and contributions of the Justices of the Federal Court of Australia and Federal Magistrates of the Federal Magistrates Service throughout the process of this Review.



## Issues

### 6.1 Overview of concerns of IP right holders and other stakeholders.

There were a number of recurring concerns expressed in the submissions and during consultations regarding a perceived failing of current court processes in relation to the enforcement of patent, trade marks and design matters. The concerns with the current system include:

- The high cost of seeking relief from the courts, which can dissuade parties from accessing the system, particularly in relation to products with modest returns.
- The complicated and sometimes protracted nature of court procedures.
- The unpredictability of court decisions, which adds a high degree of uncertainty to the process.
- The perceived limited expertise of the judiciary in IP matters.
- The lack of viable Alternate Dispute Resolution (ADR) mechanisms for IP rights holders.

These factors are claimed to influence the decision of potential IP rights owners both as to whether to initially seek to obtain IP rights and subsequently, whether to enforce them. ACIP notes that the issues raised in terms of litigation processes are not necessarily peculiar to intellectual property.

#### 6.1.1 Time and cost of proceedings

The inherent cost of litigation represents a barrier for many IP owners seeking to enforce their rights and to others who might wish to test their rights. During the course of a number of IP reviews, many IP owners have asked for enforcement mechanisms that are better matched to the value of their intellectual property or to the remedies that are available.

The combination of time and cost can be a powerful factor in deciding the outcome of IP disputes - the more protracted the dispute the greater the cost to parties. Deliberately delaying the dispute process can work to the advantage of the party with the greater financial strength.

In 1999, the Australian Law Reform Commission (ALRC) published the results of a survey investigating attitudes and costs relating to use of the Federal Court of Australia. The responses were from legal practitioners and cover actions brought in all legal areas. Some of the statistics are only given in aggregate; some are broken down by area of law, including IP. Overall, legal costs were said to be a major factor in a client's decision to settle or withdraw for around 40% of applicants and 30% of respondents. 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 \$2400 with a range of \$10-14,300 for respondents.<sup>5</sup>

The costs involved in litigation include court imposed costs such as filing fees, and the costs incurred by the parties in pursuing their case, such as those associated with legal

<sup>5</sup> [http://www.austlii.edu.au/au/other/alrc/publications/dp/62/consultant\\_rept7/report7.rtf](http://www.austlii.edu.au/au/other/alrc/publications/dp/62/consultant_rept7/report7.rtf)

representation. The filing fees in the FMS are cheaper than for the FCA (see *Attachment C*), and as the Attorney-General's (A-GD) noted, lower filing fees for filing documents and other services result in reduced costs to litigants. These cheaper fees may lead to some SMEs finding the FMS a more appealing avenue in which to pursue their case. The FCA noted that in simpler cases, the legal costs allowed under the FMS Rules will be similar in amount to those allowed under the FCA Rules.

However, court filing fees represent a small portion of potential litigation costs when compared with the overall legal cost of mounting or defending an action. It was noted in submissions that the major costs involved in IP disputes are directly related to time that must be spent by experts and IP professionals in conducting the litigation. Any significant cost reduction must therefore come from reducing the total amount of time which professionals and experts spend in preparing a case for trial and in conducting the trial.<sup>6</sup>

Furthermore, many patent owners were deterred from pursuing litigation through the courts because of the high costs involved relative to the expected returns from the patented invention. A submission noted that enterprises often approach patent attorneys to initiate action for infringement but can not justify the costs to proceed based on the commercial worth of the product. An example was cited of a product, on which the profit on sales could be expected to be in the range of \$10 000 to \$30 000 per year over a ten-year period. A competitor produces a similar product which takes half of the original party's business. Appropriate letters of demand do not resolve the issue. If the matter were to proceed to court as a design infringement, it was suggested that likely costs would be in the order of \$150 000. These costs alone would make the action prohibitive and could represent many years' profit from the sale of the product and outweigh any expected costs of recovery for damages or loss of profits. Many IP owners were prohibited from taking action before the court because of the costs. Any lowering of the cost to a more realistic level commensurate with the worth of the matter in dispute would be an improvement on the current system.<sup>7</sup>

Regarding the time taken to conduct trials, the FCA indicated that, according to its records, the average trial time for patent cases finalised in the five years ending 30 June 2001 was 7.25 days. While there are instances of trials in patent cases taking more than two weeks, the trial time in almost 50% of cases was less than two days. In the same period, the average trial time for trade mark cases was 1.88 days, and 5.16 days for designs cases.

The FCA further noted that of the 161 IP matters (excluding Copyright Act matters) finalised by the FCA in 2000-01, 45% were finalised in less than 6 months, 74.5% in less than 12 months and 85% in less than 18 months. The FCA advises that it vigorously case manages the matters that come before it and among other things, aims to quickly identify the issues and evidence in dispute, and to prevent 'litigation by attrition'. The FCA expressed the opinion that expense and duration of many IP cases are due to the complexity of issues in dispute or the need for expert evidence.

The Law Council of Australia (LCA) noted: "...procedural and cultural changes could perhaps be made to improve the current [FCA] system so as to deliver lower costs and

<sup>6</sup> FICPI

<sup>7</sup> FICPI

greater speed of enforcement of IP rights. Furthermore, improvement of procedural matters, is under active consideration."

The LCA referred to "improvements in procedures of the UK High Court of Chancery and High Court of Justice (Patents Court) as being a possible model for changes to procedures of the FCA. (See *Attachment D*) The LCA noted that ..."IP specialist Justices case managed IP matters in such a way as to provide a very high level of expeditious cost effective service. Indeed, most patent trials in England are completed within five working days and judgment given approximately three weeks thereafter. Other IP cases are dealt with even more quickly. This compares to average trial times in Australia for patent cases of between 10 and 15 working days and reasonably lengthy times for other IP cases. [The FCA advises that it is currently averaging 7.25 days.] As substantial legal costs are incurred during the trial process, very substantial savings in legal costs are achieved in England through reduction in length of trials. Furthermore, certainty is returned to the market quickly because of the swift judgments. In essence, the system works very efficiently, expeditiously, and more cheaply in England, because of the attitude and procedures applied in the approximate equivalent of the Australian Federal and State Supreme Courts. It is also probably worth noting that the specialist Justices Jacob, Laddie and Pumfrey all had substantial intellectual property practices at the bar.

The LCA also noted..."Implementation of all of the procedures and processes adopted by the Justices in England would speed up the process in Australia, reduce cost and more quickly return certainty to the market. Many of those procedures are already applied by various of the Judges in Australia but there are some areas where there is a degree of cultural resistance. A universal application of those processes and procedures would go a long way toward addressing the concerns of SMEs and large companies with small matters."

ACIP discussed these issues with the FCA who confirmed that many of the English procedures and processes referred to were already in place. The FCA noted that the English system of a very small number of highly specialised IP judges is at the opposite end of the spectrum from giving the jurisdiction to the FMS.

The A-GD reported that the FMS has developed procedures that are as simple and as efficient as possible, appropriate for the kinds of cases it hears, and aimed at avoiding delay and unnecessary costs to litigants. It considers that the adoption of streamlined procedures assists in reducing litigants' costs and the time taken to resolve disputes. In 2001-02 over 88% of general federal law matters were finalised by the FMC in 6 months. In the Federal Court in the same period, excluding native title matters, 65.5% of cases were completed in less than 6 months. This reflects of course, the more difficult and time-consuming cases dealt with by the Federal Court.

The Federal Magistrates Service has set a benchmark of six months from filing to disposition. It maintains control over the time taken and it employs a range of simplified procedures. Generally a date is set for hearing at the first mention. It is the intention of the court that the range of issues is limited to those essential to decide the case and to reduce the number of occasions when the parties/representatives have to come to court. Federal magistrates indicate they make considerable use of telephone/video hearings as

a means of avoiding the need for court appearances, especially in interlocutory proceedings.

The Federal Magistrates Act provides for the Federal Magistrate to allow interrogatories and/or discovery only if it is appropriate in the interests of the administration of justice. This provision is considered appropriate to ensure there is no potential for litigants to abuse the discovery process as a delaying tactic, a fishing expedition, or as a process to add to the other side's litigation costs. An abuse of the discovery process can cause significant cost, delay and unfairness to parties.<sup>8</sup>

The FCA has aimed at streamlining procedures and reducing costs to parties. Since 1997 the Federal Court has managed cases in accordance with its Individual Docket System. The key features of this system, as they relate to IP matters, include the allocation of a single judge from the IP Panel to a case from commencement to disposition; increased judicial involvement and management in all stages of each proceeding; and individually tailored directions, procedures and listings for each case by the judge and continual monitoring by the associate and judge of compliance with orders.

### 6.1.2 Complexity

IP matters are a specialised area of law and they have generally been considered a complex area of law. However, as a concept, 'complexity' is relative to the expertise and experience of the parties involved. The question of what is a 'complex' IP matter was the cause for considerable difference of opinion in the submissions received by ACIP. What may well appear to some to be complex may not appear complex to those who have had previous experience or appropriate expertise in the subject area.

In addition, the concept of 'complexity' can be affected by the nature of the matters involved. Decisions that relate purely to administrative actions, such as an extension of time to undertake an action, are likely to be less complex. On the other hand, issues that involve detailed technical and/or legal aspects and may call into play other areas than IP are likely to be more complex. In general, submissions did not consider that either a monetary ceiling or quantum of damages was a relevant determinant of 'complexity' of a matter.<sup>9</sup>

The LCA submission noted that its members were unable to identify substantive IP matters, as opposed to procedural matters, that could be guaranteed not to be complex. Even matters that appeared on the surface to be reasonably straightforward invariably turned into quite complex matters, and could consequently only safely be dealt with by Federal Court, and State Supreme Court, judges.

The patent attorney profession argued strongly that IP matters are only complex to the uninitiated. "The apparent complexity should not in itself be a deterrent to having IP matters dealt with by an inferior court system such as the FMS. The issues to be dealt with in IP disputes are not so complex as to present great difficulty for a Magistrate having appropriate qualifications and relevant experience."

<sup>8</sup> FMS

<sup>9</sup> FCA

The view was expressed that "there is a mystique about the complexity of intellectual property matters. The complexity most usually arises because of the technical nature of the matters to be considered. To a person with relevant skill, the matters are not so technically difficult. Accordingly, if there are appropriate magistrates with technical, legal and commercial experience in IP matters then seldom would cases arise which could be truly said to be complex." <sup>10</sup>

During the consultation process, ACIP sought the view of the LCA IP Committee as to whether there would be some justification for investing Federal Magistrates with jurisdiction to deal with simple cases - such as where a party simply sought final injunctive relief without damages, delivery up, or an account of profits and where, for example, discovery could be dispensed with, and only minimal affidavit evidence used.

The LCA responded: "Courts have traditionally, and correctly, refused to make orders affecting parties rights, such as injunctive orders, unless satisfied to a very high degree that the evidence justified the making of that order. In such circumstances the LCA Committee could not see orders of the type being suggested made without the Court being satisfied, and rightly so, that the overwhelming weight of evidence justified the making of such an order. In order for a court to be so satisfied, comprehensive, well-prepared, relevant affidavit and oral evidence must be presented to the Court. Evidence prepared to a lesser standard will, and should, condemn the application to failure."

The LCA also commented that an attempt to obtain solely injunctive relief would most likely be met with a cross-claim for revocation, which would prolong the hearing and add to the expense and uncertainty of the outcome.

The IPTA submission stated that: "the Federal Magistrates Service should be able to consider and decide on the full range of issues encountered in relation to patents, trade marks and designs". IPTA reserved on the issue of whether the FMS should be able to grant injunctive relief such as an Anton Pillar Order. IPTA was strongly opposed to restricting the FMS to administrative matters. It favoured retention of the current system under which administrative disputes are settled by the AAT.

A number of submissions that were received in relation to ACIP's Discussion Paper took the time to consider the operation of the FMS as it currently stands. One submission considered the issue in comparison with the experience of other jurisdictions.<sup>11</sup> In this regard it was considered that evidence of the effect of employing a specialist low-cost patents court is inconclusive. The submission detailed the issues and compared the relative systems, yet considered that the lack of qualitative and quantitative comparative data suggests that there are generally mixed views about the success of the specialist courts. Notably the submission indicated that it is rare to find decisive support without acknowledgment of some disadvantages.

The LCA noted that a number of submissions to ACIP's Issues Paper pointed to the high cost of enforcing intellectual property rights in the FCA and further suggested that often the costs of enforcement outweighed the value of the intellectual property thereby dissuading the owner of those rights from enforcing them. These parties suggested that a fast and inexpensive form of justice might be obtained from a Federal Magistrate if

<sup>10</sup> FICPI

<sup>11</sup> IPRIA considered the UK, German and United States systems.

special procedural rules were adopted for intellectual property cases that dispensed with the need for discovery, and the level of proof currently required for intellectual property litigation, and possibly dispensing with the laws of evidence altogether.

The LCA emphasised that the laws of evidence, and procedures, have been developed over the years to provide the fairest possible justice system and the LCA can see no reason whatsoever to dilute or dispense with these fundamental protections such as in an attempt to provide cheaper and swifter justice to SMEs or large enterprises with smaller IP matters. Furthermore, as a general rule, the provision of any system of adjudication of disputes that is below the level which the community has enjoyed over the years will inevitably result in appeals, with time delays and additional costs. In other words, what is being suggested would act counter to the desired objective of achieving a faster and cheaper form of enforcement for IP rights.

The FMS was firmly of the view that it should have a fully concurrent jurisdiction with the FCA in intellectual property matters. It could see no justification for restricting the type of matters it could hear. A similar approach was taken in the extension of the FMS's jurisdiction to include bankruptcy matters. In discussions with the FMS they noted that the Court has dealt with trade mark issues in the context of its accrued/associated jurisdiction. Sometimes matters are filed in the court alleging breach of trade practices and include alleged breaches of registered trade marks rights. It may create an artifice to limit the FMS in the range of matters it can hear in similar situations. Many trade mark disputes, for example, will combine the actions of common law passing off, a breach of the *Trade Practices Act* and a breach of the *Trade Marks Act*.

The A-GD stated: that the FMS is an appropriate forum for dealing with less complex IP matters provided that such matters can be accommodated within the existing resources of the FMS. Furthermore, the Department supports the FMS being given concurrent civil jurisdiction with the Federal Court in IP matters and notes that provisions for transfer between the courts will allow any complex matters filed in the FMS to be transferred to the Federal Court.

### 6.1.3 Decisions that are certain and consistent.

Ideally the adjudication system for the testing of IP rights should be relatively fast, cheap and predictable and the outcomes of enforcement actions should be fair, just, and independent of the financial strength of the parties to the dispute.

Expensive, time consuming or unpredictable dispute resolution mechanisms will discourage SMEs from taking enforcement action. This in turn discourages them from using the IP system with the result that the nation will lose out on the benefits the system should produce. In addition, 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.

The predictability of results was seen by some as another significant matter that impacts on the decision as to whether or not to institute legal proceedings. It is that uncertainty which inspires the parties to seek the decision of an umpire. The handling of IP

litigation by the courts over the years, and particularly in regard to the high number of unsuccessful patent cases has attracted some criticism.

IPTA stated that the current court arrangements do not meet the needs of SMEs, and furthermore, there was evidence that large Australian companies are dissatisfied with the current arrangements. "We believe that the FCA's approach to IP cases and in particular patent cases, is open to improvement. IPTA also expressed the view that something needs to be done to answer the concerns of users with regard to the belief that the FCA has an anti-patent bias and the perception that there is a lack of consistency in the FCA's approach to procedural and legal issues.

Furthermore, the IP profession held the view that the technical nature of patent matters and the relative expertise of the judiciary in dealing with IP matters had a significant bearing on the outcome of cases. This had an effect on the degree of certainty of outcome of cases and impacted on the ways with which IP right holders could pursue their interests. In addition the professions perceive that the courts have displayed an anti-patent bias in the past.<sup>12</sup>

#### 6.1.4 IP Expertise

Previous reviews on enforcement of IP have queried whether judicial decision-makers appointed to hear IP matters have had the appropriate level of knowledge, expertise and experience to deal with such matters. The query has largely arisen in recognition that IP law is specialised and can be very complex, particularly for those with limited IP exposure. In addition, as the workload has not been overly large, judicial decision-makers may not necessarily have had sufficient exposure to IP matters in the past to enable a build up of expertise. Furthermore since IP is a dynamic area of law this has added to the difficulty of attaining appropriate IP expertise.

There was a reasonably consistent view in submissions that judicial officers hearing IP matters should have some IP experience as a practitioner. This includes the FMS in the event that jurisdiction is extended to it.

The Federal Court advised that the court actively engages in case management through its current practices and procedures including its individual docket system. It draws on a panel of judges with expertise in IP and allocates these judges to hear all IP cases in Melbourne and Sydney. The judges on the IP panel, actively maintain and increase their IP expertise through various means and are generally well informed on IP matters. The Federal Court noted that in the IP area one contributing factor to a relatively quick and therefore less costly resolution is some familiarity with the area on the part of the decision-maker.

Several respondents raised concern that a similar level of IP expertise could not be expected to reside within the FMS. The submissions expressed concern that the FMC is not established as a court with specialist expertise, in fact the contrary. As a result concerns about lack of expertise may deter would be users from bringing matters before the FMS. In addition it was believed by some that decisions would be more consistent and predictable if only handled by the FCA.<sup>13</sup>

---

<sup>12</sup> FICPI, IPTA.

<sup>13</sup> LCA.

Most submissions and discussions identified the need for Federal Magistrates hearing patent trade mark and design cases to have some level of IP expertise or to have ready access to IP expertise.

The LCA stated that it would be essential to the proposal that the Federal Magistrate hearing those matters have IP expertise. The LCA submitted that as a minimum the Federal Magistrate should have several years' experience as a legal practitioner admitted to practice in the Federal Court and specialising in IP matters, preferably litigious matters. The LCA also considered that it would be necessary that there be sufficient IP matters to be heard by that Federal Magistrate to maintain and develop IP expertise. The LCA suggested that to achieve this level of IP workload, it may be necessary to identify or appoint one Federal Magistrate with IP expertise who could hear all IP matters initiated in all States and Territories.

IPTA expressed the view that the Federal Magistrate would need to have practiced in the IP area to an extent sufficient to have familiarity with general principles. In the case of patents for example, that would include at least a passing understanding of fundamental concepts such as novelty, inventive step, and fair basis. Also in relation to patents, the Federal Magistrate would need to have the ability to comprehend and deal with technical matters.

In a submission from patent attorneys Greg Bartlett and Karen Yeilds it was proposed that Federal Magistrates be assisted/advised by a lawyer with relevant IP experience and, in patent and design cases, a registered patent attorney.

The LCA commented that "if it was decided to invest Federal Magistrates with jurisdiction in IP matters there was value in considering the possibility of creating a reserve panel of experienced IP barristers and solicitors to serve as magistrates on a case by case basis.

The A-GD noted that the suggestion that a reserve panel of experienced IP barristers and solicitors serve as magistrates on a case by case basis is not constitutionally possible. Any appointment to the FMS must be for a term expiring on the person attaining the age of 70 years, so the option of a term appointment is not available. Furthermore, although the FMS legislation does allow for appointments to be made on a part-time basis, such appointees are not permitted to practice as lawyers.

The A-GD also noted that appointees to the FMS have been selected for their expertise in general federal law, including family law. The extent to which a Federal Magistrate will concentrate on a particular area depends on the nature of the applications filed in the FMS and the availability of particular magistrates. It is quite usual for judicial officers not to be experts in every area of law with which their court deals when they are appointed. Expertise is established over time on the court, even if the judicial officer were not expert in the particular area upon appointment.

Discussions with the FMS revealed that there is already a degree of expertise within the FMS, with some federal magistrates having had previous experience in patent/trade mark law. The FMS has the same rules as the FCA which means that the FMS can make use of expert witnesses in the same way as the FCA.



### 6.1.5 Differing perspectives

ACIP's consultations with parties who are experienced in dealing with enforcement of IP rights through the current court processes (and by other means) revealed some fundamental differences of opinion not only as to what the problems are but also the extent of the perceived problems and the potential remedies.

The legal profession generally perceived that the current court system worked reasonably well, although it acknowledged that some processes and procedures could be improved and streamlined. They believed that the implementation of these procedural reforms would go a long way toward redressing the concerns of SMEs without any of the obvious defects and dangers of more radical proposals. This view may be supported by the fact that the legal profession deals mainly with those IP right holders who are able to pursue or defend their rights within the cost and time structures of the current system.

The patent attorney profession on the other hand, deals with numerous clients who on learning of the expected costs and time involved in prosecuting and or defending cases are dissuaded from further involvement. They noted that IP owners will discuss enforcement issues with a member of the Institute before approaching any other qualified adviser. Hence members are exposed to the circumstances of many IP conflicts that go no further because the IP owner is discouraged by the prospect of great expense and substantial delay in pursuing the matter through court proceedings.<sup>14</sup> The actual numbers of IP owners involved and the extent of the problem is difficult to determine as evidence is largely anecdotal with little documented statistical evidence.

Five submissions in response to the Discussion Paper, including one from the FMS, were in favour of the expansion of the FMS jurisdiction.<sup>15</sup> The general flavour of these submissions considered that the operation of the FMS in respect of its current role in Federal and Family Law has significantly reduced the time and cost to parties applying to have a matter settled. As a general rule it is considered that the Federal Magistrates appointed to the FMS are of sufficient experience to handle IP matters and to also identify those matters that would simply be too complex. Secondly it is considered that solicitors would be in a position to identify those matters that would not be suitable for the FMS and this would go some way to weeding out the more complex cases.

Two submissions did not favour the idea of expanding the jurisdiction of the FMS expressing concerns that IP issues are best handled by the Federal Court, because of their inherent complexity and because of the value of IP rights. It was also considered that giving jurisdiction to the FMS would run counter to the general international trend to further specialisation of judges in the field of IP.<sup>16</sup> Furthermore, concerns were raised about consistency and predictability of outcome if matters were heard by the FMS and that IP right owners would be better served if FCA's processes could be refined to improve the speed and cost of the service, rather than extending the jurisdiction of the FMS.

<sup>14</sup> IPTA

<sup>15</sup> FMS; Sandercock & Crowie; IPTA; A-GD; FICPI.

<sup>16</sup> FCA; LCA.

Given the wide divergence of views, ACIP concluded that it needed to broaden the focus of its discussion to include specific areas of contention. It was clear that restricting the focus to the potential assistance that might flow from extending the FMS was severely limiting the prospect of developing realistic solutions or remedies.

Consequently ACIP sought views on:

- Whether the current court system is failing to provide an effective enforcement mechanism for IP rights holders?
- Are there ways in which the current court system could be improved?
- Whether extending the jurisdiction of IP matters to the FMS might address these concerns?
- What IP matters would or would not be appropriate for the FMS?
- Do alternate dispute resolution mechanisms present viable options for IP matters?
- Whether there are opportunities to better utilise or extend alternate dispute resolution mechanisms in relation to IP matters?
- Are there any other mechanisms available that would help

Is embracing a multi faceted solution the best approach? That is, should the jurisdiction be extended to the FMS, together with making improvements to the current court system and increasing access to alternate dispute resolution mechanisms?

## **6.2 Round-table discussions.**

In response to the need to address the differing perspectives and the need to take a more holistic and broader approach to the review, ACIP held a Round-table discussion in Melbourne on 20 November 2002. The Round-table was attended by representatives from the key interest areas. (See list of participants at *Attachment B*).

Discussions at the Round-table noted that the extent of the problems with the current system are largely anecdotal and that it would be useful if some empirical research could be undertaken in this area. It was also noted that the problems experienced with IP matters were similar to other commercial areas of law in length, cost, complexity etc and are usually client driven. The point was made that this will happen independently of jurisdiction.

### **6.2.1 Jurisdictional aspects**

After some discussion, the majority of views expressed at the Round-table favoured extending the jurisdiction of the FMS to include patents, trade marks and designs issues. The view was that this offered a potentially cheaper, quicker and less intimidating option, especially for SMEs.

There were some differences of opinion as to which might be the most appropriate court in which IP matters should be initiated. The preference of the LCA was that all IP cases should start in the FCA which would then decide to refer to the FMS where appropriate (as currently occurs for immigration matters). The IP professions preferred that IP cases should start in the FMS, who would then decide whether to refer to the FCA. It was thought this would help overcome the perceptions held by many SMEs that an action in the FCA was only affordable by larger, well-resourced businesses.

The FMS would like to maintain a referral arrangement with the FCA similar to that used for federal law matters. The court in which the matter commences currently depends on the area of law or on agreement of the parties.

The view of the A-GD was that the FMS is an appropriate forum for dealing with less complex IP matters provided that such matters can be accommodated within the existing resources of the FMS. Furthermore, they supported the FMS being given concurrent civil jurisdiction with the Federal Court in IP matters. The current provisions for transfer between the courts will allow any complex matters filed in the FMS to be transferred to the Federal Court.

### **6.2.2 IP Expertise of Magistrates**

Discussions and most submissions identified the need for Federal Magistrates and Federal Court Judges hearing patent, trade mark and design cases to have a reasonable level of expertise in IP matters or to have ready access to IP expertise. In the case of patents for example, this should include at least a passing understanding of fundamental concepts such as novelty, inventive step and fair basis and the ability to comprehend and deal with technical matters.

It was agreed that if the jurisdiction is to be extended to the FMS, then the issue of specialist expertise in IP of Magistrates needs to be specifically addressed. The IP

professions believed that, like the County Court system in the UK, there must be an IP specialist appointed to the FMS, if trial times and costs are to be significantly reduced.

The A-GD noted that the Attorney-General does not favour the appointment of specialists to any court, including the FMS, where magistrates have been selected for their expertise in general federal law, including family law. The extent to which a federal magistrate will concentrate on a particular area depends on the nature of the applications filed in the FMS and the availability of particular magistrates.

The A-GD also noted that the suggestion made by the IP professions to have a reserve panel of experienced IP barristers and solicitors serve as magistrates, on a case by case basis, is not constitutionally possible. Furthermore, although the FMS legislation allows for appointments to be made on a part-time basis, such appointees are not permitted to practice as lawyers.

The LCA commented that there are already IP specialists on the FCA, but not on the FMS. Discussions with the FMS revealed that there is already a degree of expertise within the FMS, with some Federal Magistrates having had previous experience in patent/ trade mark law.

The Federal Court advised that it draws on a panel of judges with expertise in IP and allocates these judges to hear all IP cases in Melbourne and Sydney. The judges on the IP panel actively maintain and increase their IP expertise through continuing legal education and exposure to cases before the FCA. The FCA noted that one contributing factor to a relatively quick and therefore less costly resolution, is some familiarity with the area of IP law on the part of the decision-maker.

### 6.2.3 Cost, time, complexity

The issues of cost, time and complexity are interrelated and are linked to the practices and procedures of the court.

In terms of court costs, the FMS has the advantage of lower court fees (set out at *Attachment C*). The FCA noted that in less complex cases, the legal costs allowed under the FMS Rules would be similar in amount to those allowed under the FCA Rules. Representatives from the FMS confirmed that its current operation also demonstrates that decisions are reached more quickly. It was pointed out that although the FMS currently has the advantage of speedier resolution, this may change as cases accumulate.

The court finds that the costs of litigation are usually greater if a matter has a number of case events and requires more time for finalisation. To reduce the number of case events the court has adopted the policy of management of cases by a judicial officer (the docket system) and, within the docket system, actively limiting the number of case events.

The FMS is assisted by the FCA which provides registry and related services under a memorandum of understanding. Close cooperation has ensured complementary services to the public. Transfer arrangements have facilitated the efficient conduct of

proceedings. Furthermore it was illustrated that the FMS and FCA have an existing good relationship and a commitment to continue such a relationship.<sup>17</sup>

#### 6.2.4 Procedural aspects

There was a strong consensus expressed at the Round-table that the courts should look to using their existing powers and penalties more frequently to help streamline processes and hence help reduce time and costs. For example, the courts currently have the powers to reduce instances of unnecessary, excessive or extravagant grounds and evidence being filed with the courts.

Overall, it was noted that the FCA has undertaken measures to streamline procedures, however, there were ongoing opportunities to make further changes to speed up processes and help reduce costs.

Discussion of current court processes at the Round-table meeting focused on procedural issues and the use of expert witnesses. The FCA noted that it currently has the power to appoint assessors and experts, but such appointments must be agreed by the parties involved, and is often opposed because of the inherent associated cost.

There was also a concern that the use of expert witnesses not extend to legal issues such as novelty and non-obviousness - their role should only be to advise on the technical aspects of the case.<sup>18</sup> Understanding the difference between the technical and legal issues could save much time and cost.

The view was also expressed that the courts (FCA or FMS) should be able to appoint an expert in a technical advisory role, irrespective of the wishes of the parties.<sup>19</sup> It was agreed that technical experts should be brought together as soon as possible to define differences and common ground. It was noted that as the FMS has the same rules as the FCA this meant that the FMS can make use of expert witnesses in the same way as the FCA.

The LCA noted that it would considerably reduce court times and costs if the FCA adopted procedures similar to the UK system of ensuring that pre-trial documentation is read by the parties before the trial starts. This assists in crystallising the issues in advance and is an effective means of reducing court time and party costs.

In the Round-table discussions some participants noted that the current system works in favour of well-heeled clients but not for others. To reduce time and costs participants suggest that one or more of the following need to be restricted: extent of pleadings, discovery, number of witnesses and/or cross-examination. Similar restrictions are already used in hearings before the Commissioner of Patents. It was noted as well that if these were restricted in the FMS there would still be access to such privileges in a higher court on appeal if needed. The FCA noted that these are basic legal rights and should not be restricted in any courts unless by agreement of the parties - the latter occasionally occurs in the FCA at the moment.<sup>20</sup>

---

<sup>17</sup> FMS.

<sup>18</sup> FCA.

<sup>19</sup> IPTA; FICPI.

<sup>20</sup> IPTA; FICPI.

The FCA noted that it actively engages in case management through its current practices and procedures including its individual docket system.

The A-GD noted that the FMS has developed procedures that are as simple and as efficient as possible, appropriate for the kinds of cases it hears, and aimed at avoiding delay and unnecessary costs to litigants. The A-GD considers that the adoption of streamlined procedures assists in reducing litigants' costs and the time taken to resolve disputes.

The FMS has set a benchmark of six months from filing to disposition which it actively manages. The FMS provided some examples of innovative procedures which it uses to expedite cases such as the use of preliminary affidavits to identify the issues early in the course of proceedings; a reduction in the of number of appearances by fixing hearing dates on the first hearing date in the majority of matters; and providing a capacity for legal representatives and self represented litigants, to appear by telephone for mentions. At the first court date the court may give directions, order the parties to mediation, fix a date of hearing, conduct an interim hearing or finally determine the application.

Federal Magistrates allow interrogatories and/or discovery only if it is appropriate in the interests of the administration of justice. This provision is considered appropriate to ensure there is no potential for litigants to abuse the discovery process as a delaying tactic, a fishing expedition, or as a process to add to the other side's litigation costs. An abuse of the discovery process can cause significant cost, delay and unfairness to parties. ACIP considers that while any Court should, in the interest of justice, retain the right to order discovery, that right should be exercised as an exception rather than the rule.

A view was expressed that the competition that occurred between courts when the UK Patent County Court commenced lead to positive procedural changes. Round-table participants generally agreed that procedural and cultural changes could be made to improve the current court system so as to deliver lower costs and greater speed of enforcement of IP rights.

In addition it was agreed that there needs to be better education and dialogue at all levels about changes to Court rules and how to use the system more effectively and efficiently.

#### 6.2.5 Alternate dispute mechanisms

Round-table discussions on the use of ADR to speed up the litigation processes agreed that mediation is a useful method for resolving actions more quickly. It was also agreed that ADR is not merely mediation, but any process that might be employed to either find common ground, identify the real problems or differences, or help solve or compromise on the differences. ADR should also include case appraisal and arbitration.

One participant pointed out that the use of mediation is not particularly useful in determining the validity of a patent. This of course could have the potential resolution of a valid IP right being given away, or an invalid IP right not being disputed.<sup>21</sup> It was

---

<sup>21</sup> IPTA.

further illustrated that even if the mediation was successful this would not prevent others from challenging the validity of the patent right.<sup>22</sup> Hence the owner of the patent right may be left defending the right from the beginning at a future time.

It was noted in submissions to ACIP's Discussion Paper that some viewed mediation as having mixed results with success being the exception to the rule,<sup>23</sup> whilst others viewed it as only really useful in those scenarios where both parties accede and co-operate in the alternative arrangements.<sup>24</sup>

FICPI Australia considered that in certain cases, ADR can provide valuable opportunities and benefits and that broadening the options for resolution through arbitration and mediation would be useful. However, it was not believed that providing alternative dispute mechanisms was a viable alternative to conferring jurisdiction on the FMS.

The LCA favoured early mediation being ordered (perhaps at the first directions hearing if appropriate) unless to do so would be clearly inappropriate or harmful to a party (for example, delaying or preventing a party applying for interlocutory relief to prevent irreparable harm). The mediator should be experienced and knowledgeable in IP disputes (perhaps a panel of independent but properly trained mediators with considerable IP experience). The prospects of early settlement would be significantly enhanced if the parties were prepared to permit the mediator to express some preliminary views about prospects (traditionally something rejected by mediators as anathema to proper mediation). ACIP suggested that such a step might be more appropriate for a 'case appraisal' approach to ADR rather than to mediation.

The LCA was: 'reasonably confident that mediation conducted in this manner by trained mediators experienced in intellectual property disputes is likely to result in early and satisfactory resolution of a substantial number of disputes, especially where the parties have limited resources and the dollar value of the dispute is not substantial, with significant consequent savings in legal costs'.

The Round-table considered whether ADR might be made compulsory for all cases, even where parties initially opposed it. Such a compulsory process (subject again to the discretion of the Court to otherwise order) could not be seen as a sign of weakness by either part to the dispute, as may be the case when mediation is requested by a party. There was a consensus that ADR should run in parallel with all stages of a court process to assist the speediest resolution, although the procedures may vary. A mediator would manage the process but not make judgements. It was agreed that there needs to be greater education about the benefits of ADR and that entering into ADR is not a sign of weakness.

The FMS makes extensive use of mediation and in general federal law refers matters for mediation to the FCA Registrars. The FMS has found that mediation will in most cases resolve, or at the least, narrow the issues in dispute. The FMS estimates that 50% of matters in the general federal law jurisdiction settle at mediation.

---

<sup>22</sup> FCA.

<sup>23</sup> IPTA.

<sup>24</sup> FICPI.

### **6.3 ACIP's Considerations**

ACIP recognises that strong and enforceable intellectual property rights are an important element in stimulating growth in the business sector. Without an effective structure to defend IP rights there are likely to be negative effects on innovation and a consequent flow on to the economy. Given these factors and the consistent concerns expressed by the IP professions and IP right owners regarding their capacity to effectively enforce their IP rights, ACIP believes changes are necessary to the current court arrangements to help ensure the viability of the IP system.

The review process has highlighted there is no 'magic formula' - no simple, easy or comprehensive answer to the problems that were commonly raised as being impediments to the effective enforcement of IP rights. These problems of cost, timeliness, complexity, uncertainty of outcome and judicial expertise are of course not confined to the enforcement of IP rights.

The pursuit of any matter through the court system is an adversarial process requiring the involvement of people with a range of skills and expertise. The process is often complex, protracted, costly, and with no certainty of outcome. Any recommendations that ACIP makes cannot wholly resolve the problems raised as they go to the very basis of our judicial process. At best, it can make recommendations that provide opportunities to reduce costs, simplify procedures and make for a speedier process and, as a consequence, perhaps make the system a more accessible and equitable option for individuals and SMEs.

ACIP is aware that any proposed changes to be utilised by Australian businesses and their IP and legal advisers must be real and credible options and not merely add another layer to the judicial process. Furthermore, parties need to be aware of the options open to them and to have easy access to information about the dispute resolution processes.

ACIP also recognises that an extension of the jurisdiction of the FMS to IP matters alone will not resolve the current problems. Consequently ACIP has taken a broader and more holistic approach to the review and canvassed other methods for improving consistency, accessibility and equity for IP right owners. Proposals to further streamline the existing court processes and procedures and for both the courts to adopt a more pro-active approach to case manage IP matters to ensure that only critical issues are litigated, are seen as positive options.

#### **6.3.1 Extending the jurisdiction.**

ACIP believes there are merits in extending the jurisdiction of the FMS to patent, trade mark and design matters.

Initially opinions of parties were divided on whether, or to what extent, the FMS should hear patent, trade mark and design matters. However, following the Round-table discussions, participants arrived at general agreement that on balance, the potential benefits of extending the jurisdiction outweigh the possible costs, particularly given that ACIP also proposes other enforcement measures.



ACIP believes that providing this option to IP right owners may facilitate greater access to enforcement procedures. Submissions to ACIP indicate that certain types of disputes in the FMS result in a faster, cheaper and alternative adjudication than the present Federal Court (FCA) system. ACIP is hopeful that a similar result will ensue for appropriate disputes involving IP matters. In addition, the FMS may prove to be a less intimidating prospect for many IP rights owners thus providing an alternate avenue to those who would possibly not have pursued a claim through the existing court processes. ACIP believes that the market place should decide the most appropriate court in which to commence an action, rather than identify elements of the jurisdiction that can be carved out and granted to the FMS.

ACIP also notes that the jurisdiction of the FMS has recently been extended to civil proceedings in copyright matters.

The FMS has the advantage of lower court fees and currently quicker times for resolution (though this may change as cases accumulate). It also uses innovative procedures such as fixing the trial date at the first hearing date which expedites the matter.

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

The perceived lack of specialist IP knowledge and experience by the judiciary was an issue of concern raised consistently throughout the review process. Many submissions called for the appointment of judges and/or magistrates with IP expertise. Many expressed the view that without this, it would not be appropriate to extend the jurisdiction of the FMS to patent, trade mark and design matters.

ACIP encourages the appointment of judges and magistrates with IP expertise to both the FCA and the FMS. ACIP notes that judicial appointments are not made on the basis of 'specialist' knowledge and that the judiciary currently deals with factual and legal complexity in many areas of litigation. ACIP believes it is highly desirable that the judiciary hearing IP cases be familiar with concepts of IP law, and particularly patent law.

Although it is noted that the practice is not to appoint 'specialist' judges, ACIP believes that when appointees are drawn from more generalist jurisdictional areas, consideration should be given to appointments from the field of commercial law that encompass expertise in IP matters. ACIP therefore encourages the appointment of judges and magistrates with IP expertise to the respective courts.

ACIP recognises that there is no assurance that specialised judges or magistrates coming from a suitable technical legal background will be able to deliver better decisions more efficiently than generalised judges or magistrates. However, ACIP believes that the disputing parties would derive an increased sense of comfort and certainty from the knowledge that the adjudicator had expertise in IP matters. 'Specialist' knowledge is built up over time and ACIP is aware that a number of judges in the FCA have developed a special interest/knowledge in IP matters. ACIP applauds

this approach and urges the courts to develop this further as an on-going and conscious policy. Given that a number of FCA judges have developed IP expertise over time, ACIP believes it can be equally expected that one or more FMS magistrates will develop similar expertise. ACIP recognises that no judge or magistrate can be expected to be familiar with all the technologies involved in patent cases and it encourages the courts to seek advice from independent technical experts to assist them understand any technology based issues relevant to the case.

The jurisdiction of the Federal Magistrates Service is concurrent with that of the Family Court and the Federal Court. To avoid concerns that the expansion of the jurisdiction of the FMS to IP matters may create an additional layer of judicial decision-making, leading to more costs and delay for litigants, ACIP recommends that an appeal from the FMS should be to the full court of the Federal Court. Furthermore, ACIP recommends that such jurisdiction should be exercised concurrently and that the courts should have the power to refer matters between jurisdictions, as appropriate.

ACIP is aware that there are current restrictions on the authority of the FCA that could be examined to provide more flexibility for the FCA to remove an issue to the FMS in suitable cases, such as having an interlocutory issue or quantum determined at the FMS level, while still retaining overall control of the action at the FCA level.

ACIP believes that the Court in which the action is commenced should remain the Court that determines where the proceeding will be heard and that a Federal Magistrate or a Federal Court Judge may refer a matter to the other court. ACIP recognises that a decision by the FMS to refer a matter to the FCA will incur additional costs for the parties and this could, in some instances, place an untenable financial burden on some SMEs. Whilst this is not a desirable outcome, it may be an unavoidable consequence in some disputes. ACIP believes it is essential for the courts to have the discretion to refer matters between jurisdictions where the courts deem it is necessary, even if this may sometimes run counter to the intention to provide the lowest cost adjudication option. ACIP would be concerned if litigants could appeal such a decision and this would thereby increase costs. Therefore ACIP encourages the FMS and the FCA to adopt a practice of not allowing an appeal against a decision by a Federal Magistrate or a Federal Court Judge to refer a matter to the other court.

## **Recommendations 1**

### ***Jurisdictional Issues.***

- 1.1. The jurisdiction of the Federal Magistrates Service should be extended to include patent, trade mark and designs matters.
- 1.2. The jurisdiction of the Federal Magistrates Service should be concurrent with the jurisdiction of the Federal Court of Australia in patent, trade mark and design matters.
- 1.3. An appeal from a decision of the Federal Magistrates Service in relation to patent, trade mark and design matters should be to the full court of the Federal Court of Australia.
- 1.4. Provision should be made to enable patent, trade mark and design matters to be transferred between the Federal Magistrates Service and the Federal Court of Australia

where it becomes apparent to the Court in which the matter is brought that it could be dealt with more appropriately by the other court.

1.5. A decision made by a Federal Court Judge or a Federal Magistrate, on a request by either party to a dispute to transfer a matter to another court, should not be appealable.

1.6 In addition to the Federal Magistrates Service building on and expanding its own expertise in IP matters, ACIP recommends that magistrates with IP expertise be appointed to the Federal Magistrates Service at an early stage.

### 6.3.2 Streamlining court processes and procedures

ACIP notes that during consultations there was a strong divergence of opinion with regard to the operation, effectiveness, and appropriateness of the existing court system. A variance of opinion on the relative success of the FCA's handling of IP matters is to be expected. Some negative views may well be justified, others may arise through a lack of knowledge, understanding or experience with the current court processes and may not be so well supported.

The processes used by the UK High Court Chancery for handling IP matters has been suggested as a possible improvement to the Australian court system. IP expertise is vested in three Justices who hear all IP cases. An overview of processes and procedures in the UK High Court of the Chancery is at *Attachment D*.

It was claimed that most patent trials in England are completed within five working days and judgment given approximately three weeks thereafter. Other IP cases are dealt with even more quickly. This compares to average trial times in Australia for patent cases of between 10 and 15 working days and reasonably lengthy times for other IP cases. [The FCA advises that it is currently averaging 7.25 days.] As substantial legal costs are incurred during the trial process, very substantial savings in legal costs are achieved in England through reduction in length of trials. Furthermore, anecdotal evidence suggests that certainty is returned to the market quickly because of the swift judgments.<sup>25</sup>

Streamlined processes used by the UK court includes: parties being required to provide a comprehensive outline of their cases at the first directions hearing; a trial date and a timetable for discovery, affidavit evidence etc being set at the first directions hearing; limited discovery; courts provided with comprehensive written submissions on fact and law and a reading list of key documents well in advance of the commencement of the trial; documents being read by judges before the trial starts; counsel required to stick to outline of issues covered in the written submissions; expert witnesses being limited to one per discipline; and judges intervening in relation to cross-examination and not tolerating lengthy unnecessary cross-examination.

The FCA confirmed that many of the UK procedures and processes referred to were already in place. ACIP notes that the FCA has an ongoing process of improvement aimed at streamlining procedures and reducing costs to parties. However, submissions to ACIP identified additional areas where the courts could look to improve their

<sup>25</sup> LCA

practices and procedures to help reduce time, cost and uncertainty of outcome and ACIP encourages the Court to continue their endeavours in that respect.

The FCA and the FMS should be encouraged to use their existing powers and penalties more effectively to assist in reducing unnecessary, excessive or extravagant grounds and evidence being filed with the courts. For example in some patent cases, a party may cite large numbers of instances of prior art in pleadings, ie a hundred or more, yet rely on only three at trial. The effect of this is to extend the time and cost involved in cases. If it becomes apparent to the parties that the court can, and will, impose penalties for what largely amounts to time and resource wasting tactics which result in unnecessary expense, this should help focus the parties and reduce both time and costs.

ACIP believes the courts should be encouraged to appoint experts to assist in consideration of complex technical claims. Furthermore, the provision for the use of expert witnesses by the parties should be streamlined to make best use of them and early in the process. The Court could consider having expert witnesses give evidence together and the experts should be encouraged to reach agreement as early as possible on technical issues agreed to and those genuinely in dispute. The Courts could further consider confining the parties to one expert per issue.

Furthermore, a written outline on fact and law and a reading list of documents should be required to be provided to the courts well in advance of commencement of trial. These key documents would serve to educate the judges and magistrates and crystallise the issues in advance enabling them to 'hit the ground running'. As a result openings are likely to be short, the need for extensive explanation of issues significantly reduced and trial times and consequent costs reduced.

## Recommendation 2

### *Court Practices and procedures*

2.1. The Federal Magistrates Service and the Federal Court of Australia should be encouraged to ensure that they continue their Court practices and procedures to encourage active case management of disputes involving patent, trade mark and design matters to ensure matters are resolved without unnecessary delay.

2.2. The Courts should be encouraged to continue to streamline their practices and procedures and, in particular, to take measures that may include:

- using their existing powers and penalties more effectively to assist in reducing unnecessary, excessive or extravagant grounds and evidence being filed with the courts, particularly where those grounds and evidence are not relied upon by the party at trial;
- using court-appointed experts to assist the courts, particularly with technical aspects of patent cases;
- encouraging the use of expert witnesses by the parties early in the process to refine the technical issues genuinely in dispute;
- considering having expert witnesses give evidence together;
- encouraging expert witnesses to reach agreement as early as possible on core technical issues genuinely in dispute, and upon those technical issues not in dispute;
- limiting expert witnesses, where appropriate to do so, to one expert witness per issue;
- requiring parties to provide a comprehensive outline of their cases at the first directions hearing;
- setting a trial date and a timetable for discovery, affidavit evidence etc at the first directions hearing;
- limiting unnecessary or prolonged discovery;
- that discovery be the exception rather than the rule;
- requiring comprehensive written submissions on fact and law and a reading list of key documents well in advance of the commencement of the trial;
- requiring counsel to confine oral submissions to the outline of issues covered in the written submissions; and
- intervening in relation to cross-examination and not tolerating lengthy and/or unnecessary cross-examination.

### 6.3.3 Alternate Dispute Resolution Mechanisms

ADR includes not just mediation but also a process for finding common ground, identifying the real differences and areas of dispute and helping to solve some or all of those differences. ACIP believes that mediation conducted by trained mediators experienced in intellectual property disputes is likely to result in early and satisfactory resolution of a substantial number of disputes, especially where the parties have limited resources and the dollar value of the dispute is not substantial, with significant consequent savings in legal costs.

If entering into an ADR process in the early stage of a dispute can lead to more accurate identification of the issues, and possibly resolution of the dispute then there is a distinct

benefit in real terms through reduced pleading times. ACIP also considers that through effective case management, incorporating ADR, the process of pursuing an action in either the FCA or FMS is potentially less costly and would contribute to the return of certainty to the market, including the rights holders, more quickly.

There are obviously scenarios where mediation will not be useful as a method for resolving actions more quickly, for example, where the dispute involves the determination of patent validity. This is a matter of fact and public interest and could have the potential for a valid IP right being given away, or an invalid IP right not being disputed. Even if the mediation were successful this would not prevent others from challenging the validity of the patent right. Thus a rights holder may be placed in the position of facing further litigation over validity after successful mediation in an earlier dispute.

However, on balance, ACIP believes there are real benefits in court-directed early mediation (perhaps at the first directions hearing if appropriate) unless to do so would be clearly inappropriate or harmful to a party (for example, delaying or preventing a party applying for interlocutory relief to prevent irreparable harm). The mediator should be experienced and knowledgeable in IP disputes. The prospects of early settlement would be significantly enhanced if the parties were prepared to permit the mediator to express some preliminary views about prospects.

ACIP does not necessarily see ADR mechanisms as replacing or delaying the court process, rather it should run in parallel with all stages of the court process, to assist the speediest resolution. Subject to the restrictions above, ACIP believes that ADR should be made compulsory for all cases, even where parties initially oppose it. Furthermore, there needs to be greater awareness and education about ADR and a general acceptance that ADR is an essential element, and not a sign of weakness of either party.

The successful application of ACIP's recommendations would of course be dependent on the appointment of mediators experienced and knowledgeable in IP disputes.

Mediation does attract some court costs. There is a fee for mediation conferences conducted by Registrars of the FCA (and other courts). In the FCA, unless an order is made by the court to the contrary, the fee must be paid by the applicant (the party that commenced the case against the other party). If more than one conference is necessary, no additional fee is payable. If a mediation fee has been paid to the court, but the dispute is not resolved, the fee to be paid for hearing the case in court is reduced by the amount of the fee which was paid for the mediation. In addition, the parties will also be subject to any legal representation costs.

The mediation process as it stands is generally acknowledged for its expediency. Furthermore, if the matter is not resolved, it is returned to a judge for further direction. It is court policy that parties should not lose their place in the 'litigation queue' because they have had their dispute referred to mediation.

**Recommendation 3*****Alternate Dispute Resolution***

3.1. The Federal Magistrates Service and the Federal Court of Australia should be encouraged to require parties involved in patent, trade mark and design matter disputes to take part in Alternate Dispute Resolution (ADR) processes in the early stages of the dispute process, and where appropriate, at first directions hearing.

3.2. The Federal Magistrates Service and the Federal Court of Australia should be encouraged to use ADR processes in conjunction with existing court processes and should not allow the parties to use the ADR processes to create unnecessary delays or increase the financial burden on opponents.

3.3. Mediators experienced and knowledgeable in IP matters should be appointed to manage dispute resolution processes in IP cases.

**6.3.4 Awareness and education**

It was apparent to ACIP at the Round-table discussion that parties had different perspectives on, and levels of understanding of, the current court processes and procedures concerning IP issues generally. It was also apparent that better education and dialogue at all levels, about recent changes to court rules and how to best utilise the existing system more efficiently and effectively, would be of benefit to the users of the system.

ACIP encourages the courts and IP professions to undertake an ongoing dialogue and/or exchange of views on enforcement of IP matters and particularly in relation to ensuring practitioners are aware of changes to court practices and procedures, and how best to use them. ACIP believes that a greater understanding by all parties together with further streamlining and education as to the effective use of the system will benefit SMEs directly, and have a positive impact on innovation.

ACIP also encourages the Courts to raise awareness and promote the use of alternate dispute mechanisms, especially amongst the IP and legal professions, as viable means of resolving IP matters.

**Recommendation 4*****Education and awareness***

The Federal Court of Australia and the Federal Magistrates Service should be encouraged to:

- implement education processes to inform the relevant IP professions as to changes to court rules and how they might best utilise the system;
- actively educate all parties, and particularly disputing parties, on the use of alternate dispute resolution mechanisms to resolve IP matters; and

- undertake a continuing and open dialogue with the IP professions to help advise on ways that the process and procedures involved in IP litigation might be streamlined to help reduce costs, time, complexity and uncertainty of outcome.

### 6.3.5 Monitoring and research

As noted, the actual numbers of IP owners involved and the extent of the problem of reaching a speedy, cost-effective decision is difficult to determine as evidence is largely anecdotal with little documented statistical evidence. To better understand the issues and impacts ACIP would like to see a proper detailed research study undertaken by an appropriate research body such the Intellectual Property Research Institute Australia (IPRIA) or a similar body.

ACIP is also concerned at the high level of Australian patent cases (overall failure rate of about 80%) that are reputedly unsuccessful in litigation in the FCA.<sup>26</sup> This high failure rate has given rise to suggestions that the Court is unsympathetic, in a systemic way, to patent disputes.<sup>27</sup> There may be many and varied reasons for this high failure rate, and such a rate may be warranted. However, it would be most unfortunate if a financially deprived company or business did not survive a costly and unsuccessful pursuit of justice in circumstances where the adverse decision of the court was seriously flawed.<sup>28</sup> ACIP hastens to add that it does not suggest that the courts should lean toward reflecting Australia's national economic interests at the expense of a just and appropriate decision. However, it does suggest that a closer examination of this matter may be in order to determine causes and possible remedies and to ensure the IP system maintains an appropriate balance. ACIP believes that this is another area of research that IPRIA or a similar body could usefully undertake.

### **Recommendation 5**

#### ***Monitoring and research***

ACIP recommends that IP Australia contract a research study, by an appropriate research body such as the Intellectual Property Research Institute of Australia (IPRIA), into the measures used by Australian SMEs to enforce their IP rights. The study should include the extent of, and reasons why, some SMEs do not pursue the enforcement of their rights. The study, or additional research, should also examine the handling of IP litigation by the Australian courts over recent years, and particularly the handling of patent cases, to identify trends and impacts.

If recommendation 1.1 is accepted, ACIP recommends that there be a review three years after the extension of the FMS jurisdiction to evaluate whether the extension of jurisdiction has achieved the original objectives and to identify any further steps that may be appropriate.

<sup>26</sup> Drummond, The Hon Mr Douglas, Judge of the Federal Court of Australia, "Are the Courts Down Under properly Handling Patent Disputes?" *Intellectual Property Forum*, Issue 42 September 2000. A paper presented at the 14<sup>th</sup> Annual IPSANZ Conference, 14-16 July 2000 Queensland.

<sup>27</sup> Ibid

<sup>28</sup> IPTA



## **Attachment A: Issues Paper Submissions, Consultation and Circulation**

### **Written Submissions in response to Issues Paper**

Greg Bartlett and Karen Yeilds, Patent Attorneys , Phillips Ormonde Fitzpatrick  
Adelaide

Federal Court of Australia

Law Council of Australia - IP Committee Business Law Section

Institute of Patent Trade Mark Attorneys of Australia - (IPTA)

The Australian Federation of Intellectual Property Attorneys (FICPI) - [originally provided as a Confidential submission, subsequently FICPI advised that the submission was for general release.]

### **Consultations in response to the Issues Paper.**

List of individuals or organisations the ACIP Working Group has met with, or held discussions with, during the preparation of the Discussion Paper.

#### **Attorney-General's Department**

- Ms Janine Ward, Mr Norman Bowman

#### **Federal Court of Australia**

- Justice Lindgren, Registrar and CEO Mr Warwick Soden.

#### **Federal Magistrates Service**

- Chief Magistrate Diana Bryant, FM Michael Connolly, FM Norah Hartnett, FM Maurice Phipps, FM Kenneth Raphael, FM Murray McInnis, CEO Mr Peter May, Registrar Ms Adele Byrne.

#### **FICPI - The International Federation of Intellectual Property Attorneys**

Mr Malcolm Royal

#### **Law Council of Australia**

- Mr Ian Pascarl

#### **IPTA - Institute of Patent and Trade Mark Attorneys of Australia**

- Mr Colin Macauley, Mr Terry Collins, Mr Terry Ward.

#### **FICPI - The Australian Federation of Intellectual Property Attorneys**

- Mr Jeff Ryder, Mr Wayne McMaster, Mr Noel Brett.

### Issues Paper Circulation List

Justice Operations Branch Attorney-General's Dept Canberra	President AIPPI Melbourne
Chair, Intellectual Property Committee Business Law Section Law Council of Australia Melbourne	Intellectual Property Branch Dept Communications, Information Technology and the Arts Canberra
President FICPI Australia Melbourne	President IPTA Melbourne
Business Law & Microeconomic Reform Section Business Environment Branch Dept Industry, Science and Resources Canberra	Science and Technology Innovation/Operating Environment Dept of Agriculture, Fisheries and Forestry - Australia Canberra
A/g President AMPICTA Sydney	President Law Council of Australia Canberra
Services and Intellectual Property Trade Negotiations Division Dept Foreign Affairs & Trade Canberra	Intellectual Property Branch Attorney-General's Dept Canberra

## Attachment B: Discussion Paper Submissions, Consultation and Circulation

### Written Submissions in response to Discussion Paper

Attorney General's Department  
 Institute of Patent and Trade Mark Attorneys  
 Sandercock & Cowie; Michael Kraemer; Registered Patent Attorney.  
 Law Council of Australia  
 Inventors Association of Australia (Vic) Inc  
 Federal Court of Australia  
 Federal Magistrates Service  
 Australian Federation of Intellectual Property Attorneys (FICPI)  
 Intellectual Property Research Institute of Australia (IPRIA)  
 The Law Society of New South Wales

### Participant List

#### FMS Round-table Consultations - Melbourne 20 November 2002

Participants	Organisation
Stephen Fox	Attorney-General's Dept
Janine Ward	Attorney-General's Dept
John Meharry	Inventors Association of Australia
Bill Allardyce	Inventors Association of Australia
Noel Brett	FICPI
Malcolm Royal	FICPI
Greg Chambers	FICPI
Jeff Ryder	FICPI
Peter Huntsman	FICPI
Mary Wyburn	Uni of Sydney
Andrew Christie	IPRIA
Eloise Dias	IPRIA
Justice Heerey	Federal Court of Australia
Justice Emmett	Federal Court of Australia
Philip Kellow	Federal Court of Australia
Colin Macauley	IPTA
Doug Carter	IPTA
Federal Magistrate McInnis	Federal Magistrates Service
Ms Susan Cibau	Federal Magistrates Service
Adele Byrne - Registrar	Federal Magistrates Service
Ian Pascarl	Law Council of Australia
Irene Zeitler	Law Council of Australia
Ben Fitzpatrick	Law Council of Australia
Lenn Bayliss	ACIP
Anne Trimmer	ACIP
Rod Crawford	IP Australia
Kay Collins	IP Australia
Rick Gould	IP Australia

**Discussion Paper - Circulation list**

Assistant Secretary Civil Justice Division Attorney-General's Dept BARTON ACT 2600	A/g General Manager Intellectual Property Branch Dept Communications, Information Technology and the Arts CANBERRA ACT 2601
President, AMPICTA Australian Business Limited NORTH SYDNEY NSW 2060	President AIPPI MELBOURNE VIC 3001
Secretary AMPICTA North Sydney NSW 2059	President IPTA EAST KEW VIC 3102
President FICPI Australia MELBOURNE VIC 3000	Secretary-General Designate Law Council of Australia CANBERRA ACT 2601
Business Law & Microeconomic Reform Section Business Environment Branch Dept Industry, Science and Resources CANBERRA ACT 2600	Science and Technology Innovation/Operating Environment Dept of Agriculture, Fisheries and Forestry - Australia CANBERRA ACT 2601
Chair, IP Committee Business Law Section Law Council of Australia MELBOURNE VIC 3000	Services and Intellectual Property Trade Negotiations Division Dept Foreign Affairs & Trade BARTON ACT 0221
Intellectual Property Branch Attorney-General's Dept BARTON ACT 2600	Deputy Chairman Intellectual Property Law Committee Law Council of Australia
Secretary Inventor's Assoc of Australia SA Inc EDWARDSTOWN SA 5049	Inventor's Assoc of Australia VIC Inc EAST BENLEIGH VIC 3165
Vice President Inventor's Assoc of Australia QLD NOOSA HEADS QLD 4567	Inventor's Assoc of Australia WA Inc EAST CANNINGTON WA 6107
Federal Court of Australia SYDNEY NSW 2000	Registrar and CEO Federal Court of Australia SYDNEY NSW 2000
Chief Federal Magistrate Federal Magistrates Service MELBOURNE VIC 3000	Registrar Federal Magistrates Service MELBOURNE VIC 3000
The Intellectual Property Society of Australia & New Zealand Inc The Secretariat MELBOURNE VIC 3001	President Inventor's Assistance Society of Australia NSW BONDI BEACH NSW 2026
Weston & Weston Lawyers MELBOURNE VIC. 3000	Office of the President FICPI MELBOURNE Vic 3000

## Attachment C: General Federal Law Fees

Fee schedule obtained from the FMS website at <http://www.fms.gov.au/html/fees.html>

ITEM	FEDERAL MAGISTRATES COURT	FEDERAL COURT
Initial proceedings		
Corporations	\$546	\$1377
Others	\$273	\$574
HREOC unlawful discrimination	\$50	\$50
Interlocutory- interim/procedural orders		
Corporations	\$327	\$282
Others	\$164	\$141
Setting Down Fee		
Corporations	\$655	\$2296
Others	\$327	\$1148
Mediation		
Corporations	\$218	\$574
Others	\$218	\$287
Daily Hearing Fee <i>In General</i>		
Corporations	NIL	\$919
Others	NIL	\$458
Daily Hearing Fee <i>In Notice of Motion</i>		
Corporations	NIL	\$458
Others	NIL	\$229

The lower fees in the Federal Magistrates Court reflect the fact that the FMC deals with less complex matters.

Fee schedule as at 10/09/2003

## **Attachment D: An overview of processes and procedures in the High Court of the Chancery.**

Key features of their system involve:

- The parties being required to provide a comprehensive outline of their cases at the first directions hearing;
- a trial date being set at the first directions hearing and can only be moved in exceptional circumstances (eg. key witness hit by a truck);
- the timetable for discovery, affidavit evidence etc being set at the first directions hearing and can only be changed in exceptional circumstances;
- discovery being limited;
- comprehensive written submissions on fact and law, and a reading list of key documents (eg patent specification, key affidavits, key pieces of prior art) being provided to the Court well in advance of the commencement of the trial;
- the judges ensuring that the documents they have been asked to read by the parties are read before the trial starts, serving to educate the judges and crystallise the issues in advance;
- the judges 'hitting the ground running', having read the key documentation, on the first day of trial;
- because of the preceding point, openings are usually short and the need for extensive explanation of issues and terms usually unnecessary;
- the judges being reluctant to allow counsel to depart from the skeletal outline of issues covered in the written submissions during the trial;
- expert witnesses being limited to one per discipline except in exceptional circumstances with leave needing to be obtained;
- the judges intervening in relation to cross-examination and not tolerating lengthy unnecessary cross-examination;
- The consequences of the last two points is that the taking of evidence is usually much shorter than in Australia.

## Attachment E: Overview Alternate Dispute Resolution Mechanisms.

### Mediation – [Within or independent of the FCA]

One possible solution to achieve the outcome of a quicker, cheaper resolution of disputes in IP matters is to explore alternative dispute resolution options either collaterally with a litigious process or independently. 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. The FCA vigorously case manages the matters that come before it, including the use of Assisted Dispute Resolution (ADR) as an alternative to a full hearing.

Mediation is a dispute resolution process that is part of the procedures of the FCA. It can provide a cheaper and more informal way of resolving a dispute than going to a court hearing. One of the benefits of mediation is that most cases are resolved without the need to go to a court hearing. Further, if a case is not resolved by mediation, it may then go to a court hearing with the benefit of both parties having clarified the disputed issues and/or facts of the case. The willingness of the parties to try mediation can also help to reduce the potential stress and cost of court actions. The mediation conference is confidential and all discussions are held on a 'without prejudice' basis.

One suggested approach is for the FCA to provide a specialist Registrar capable of providing initial mediation services, prior to commencement of a hearing. From a procedural point of view this would need to occur after the parties have filed initiating proceedings and any defence to that filing.

The benefit of this approach is that the parties would be able to explore the scope of the issues before the matter is set down for hearing. This might also assist in determining whether the FCA or the FMC is the most appropriate court.

The Queensland Supreme Court has undertaken a pro-active program to promote ADR processes and as a result it has gained wide acceptance in the state in the last decade. The processes available are many and varied but the principal processes are mediation, case appraisal and arbitration. ADR when implemented is generally designed to allow the nature of the dispute to predicate the process undertaken.

Mediation is now almost routinely ordered by the Supreme Court of Queensland prior to the court allocating lengthy hearing dates for trials. At least half of all mediated matters are resolved in the mediation.

Mediation can offer litigants the following advantages:

- cost effectiveness;
- expediency;
- relatively stress free;
- enables the parties to make their own decision rather than having a decision imposed upon them;
- removes litigation risk;
- enables the parties to fashion a solution that is in their joint interest and which might not have been available in a court; and

- even if the mediation is unsuccessful, frequently it is possible to resolve some issues and thus shorten the length of the trial.

Possible disadvantages include:

- compromise;
- alerts the other party to hitherto unconsidered arguments available to it; and
- if unsuccessful it increases the costs to litigants.

**Cost and timeliness**

Mediation does attract some court costs. There is a fee for mediation conferences conducted by Registrars of the FCA (and other courts). In the FCA, unless an order is made by the court to the contrary, the fee must be paid by the applicant (the party that commenced the case against the other party). If more than one conference is necessary, no additional fee is payable. If a mediation fee has been paid to the court, but the dispute is not resolved, the fee to be paid for hearing the case in court is reduced by the amount of the fee which was paid for the mediation. In addition, the parties will also be subject to any legal representation costs.

The mediation process as it stands is generally acknowledged for its expediency. Furthermore, if the matter is not resolved, it is returned to a judge for further direction. It is court policy that parties should not lose their place in the 'litigation queue' because they have had their dispute referred to mediation.



## Attachment F: Related reviews

The report of the Intellectual Property and Competition Review (IPCR) *Review of Intellectual Property Legislation under the Competition Principles Agreement*, September 2000, recommended that the Federal Magistracy be used as a lower court for the patent system, particularly for matters relating to the Innovation Patent (Recommendation 23). This built on a recommendation made in an earlier review by the Advisory Council on Industrial Property, in its *Review of the Petty Patent System*.

The Government released its response to the IPCR report on 28 August 2001. With regard to recommendation 23, the Government deferred its response, and asked ACIP to consider this issue in more detail. The response noted "issues to consider include whether the volume of patent cases would justify specialist magistrates and, given the complexity of many patent cases, the difficulties in finding magistrates with the appropriate expertise in IP matters".

The report of the Advisory Council on Intellectual Property (ACIP) *Review of Enforcement of Industrial Property Rights*, March 1999, made a number of recommendations aimed at reducing the uncertainty regarding the outcomes of patent enforcement actions.

The Government responded to this report on 28 August 2001, with a number of the recommendations addressing the judicial system.

**Recommendation 1 (E):** IP Australia work with the Australian Institute of Judicial Administration to develop IP awareness programs for the judiciary.

**Government Response:** IP Australia will work with the Australian Institute of Judicial Administration to develop awareness programs.

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

**Government Response:** Accept.

**Recommendation 6:** Encourage the Federal Court to promote further specialisation of IP judges, with initiatives including; specialist judges sitting in interstate where there is not a specialist judge in the registry; and programs to assist specialist judges keep up to date with international trends.

**Government Response:** Accept in principle. The Government will ask that the issue be drawn to the attention of the Federal Court. The part of the recommendation concerning education of judges should be tied in with recommendation 1(E) above.

The government response to the recommendations of these two reports can be viewed at <http://www.ipaustralia.gov.au/NEWS/archive.htm>