

AUSTRALIAN PATENT ENFORCEMENT - A PROPOSAL FOR AN EXPERT PANEL OPINION

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Abstract

The Australian Government has been concerned “to find ways of making patent enforcement less of an issue” and to make it “cheaper, simpler and quicker to get fair and appropriate resolution for any dispute”.² Major problems relating to patent enforcement in Australia have been identified as:

- the cost of legal proceedings;
- the lack of patent owners’ financial capacity to fund enforcement proceedings;
- delay; and
- uncertainty as to the outcome and lack of knowledge about the processes of enforcement.

This paper considers some of the problems associated with patent enforcement in Australia and proposes an approach to patent litigation which is directed at alleviating some of the difficulties which have been identified. Specifically, it proposes a strategy designed to identify the parties’ risks at an early stage of patent litigation proceeding and facilitate an early resolution of the dispute.

Central to the proposed strategy is the establishment of a specialist, three-member panel of experts within IP Australia, which would provide an opinion to the Court on the issue of patent validity. The availability to the court of a joint expert opinion on validity at an early stage of the proceedings would impact upon all the problems with the patent enforcement system in its present form. The proposed risk identification strategy would complement the recent amendments to the *Patents Act*

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² Advisory Council on Intellectual Property (ACIP), Post Grant Patent Enforcement Strategies – Issues Paper, November 2006 page 7. See <http://www.acip.gov.au/library/Post-Grant%20Issues%20Paper%20v5-print%20version.pdf> (“the Issues Paper”)

1990 (Cth) designed to strengthen granted patents³ and the requirements under the *Civil Disputes Resolution Act 2011* (Cth), which encourage parties to resolve disputes prior to commencing litigation.⁴

ACIP's Review of Post-Grant Patent Enforcement

In 2006, the Australian Government requested ACIP⁵ to:

Inquire and report on issues relating to post-grant patent enforcement strategies to benefit the Australian economy by assisting patentees to effectively enforce their patent rights.⁶

ACIP's Issues Paper (2006)

Concern about the difficulties associated with the current arrangements for patent enforcement in Australia, were raised in the Issues Paper.⁷ It identified several problems with the patent enforcement system in its current form:

- Legal representation is a significant factor in the high cost of enforcement.⁸
- Many patent owners are deterred from pursuing litigation because of the significant costs involved relative to the expected returns from the patented invention.⁹
- Financial disparity between the patent owner and the alleged infringer often means that an out of court settlement might be less likely if the owner of the patent is a small enterprise but the alleged infringer can easily carry the costs of litigation.¹⁰
- Deliberately delaying the dispute process can work to the commercial advantage of the party with the greater financial strength. Time delays are inextricably linked to costs as expert witnesses and IP lawyers charge by the hour.¹¹
- Uncertainty is associated with the present patent enforcement system, due to a variety of factors such as:

³ The *Intellectual Property Amendments (Raising the Bar) Bill 2011*.

⁴ *Civil Disputes Resolution Act 2011* (Cth).

⁵ ACIP is an independent body appointed by the Australian Government, and advises the Federal Minister for Industry and Innovation—and his Parliamentary Secretary—on intellectual property matters and the strategic administration of IP Australia. The Council was established in 1994.

⁶ The Issues Paper, above n2 at p 1.

⁷ *Ibid.*

⁸ The Issues Paper above n2 at p7.

⁹ *Ibid.*

¹⁰ The Issues Paper above n2 at p8.

¹¹ *Ibid.*

- the probabilistic nature of patent rights;
- a low level of knowledge about what patent rights entail and how to manage intellectual property;
- the cost and time involved in pursuing enforcement in the courts;
- the high degree of uncertainty of outcome in legal proceedings; and
- a fear that parties with more resources can abuse the system and force an unfair outcome on smaller parties.¹²

ACIP's Final Report (2010)

In February 2010 ACIP released its Final Report setting out a number of recommendations.¹³ The Executive Summary noted that ACIP's recommendations focused on non-court measures. ACIP explained that the rationale for this approach was that earlier reviews had concentrated on improvements in the courts and that there appeared 'little evidence' these assisted enforcement, particularly for small to medium businesses (SMEs).¹⁴

In addition, ACIP considered that many disputes should be resolved without the need to go to court. Accordingly, its recommendations involved the introduction of an IP dispute resolution centre which would act as a referral point for IP owners seeking information about enforcement.¹⁵

ACIP's conclusions

Based on an examination of patent enforcement strategies carried out from 2006 to 2010, ACIP concluded that SMEs and individual innovators continued to experience difficulties with patent enforcement. The difficulties identified by ACIP centred on three main areas.

The first problem identified by ACIP was the temporal difficulty, that is, the delays associated with the finalisation of patent infringement proceedings.¹⁶ ACIP referred to a 2007 study conducted by the Intellectual Property Research Institute of Australia (IPRIA), which found that the actual time taken for the completion of

¹² The Issues Paper above n2 at p9.

¹³ ACIP, *Post-Grant Patent Enforcement Strategies – Final Report*, Australian Government (IP Australia) January 2010: <http://www.acip.gov.au/library/Final%20report%20dated%2016Jan2010.pdf> (the "ACIP 2010 Report")

¹⁴ *Ibid* at p4.

¹⁵ *Ibid*.

¹⁶ The ACIP 2010 Report p25.

patent litigation matters was well outside the Federal Court's general target for disposal of cases within 18 months:

Australian litigation processes take a long time, longer than equivalent processes in the United States. For example, the average time taken for patent cases to reach judgement in Australia is 2.7 years from filing to the first instance decision, with a further 1.1 years if the matter goes on appeal – giving a total if it goes on appeal of 3.8 years. [fn 45 omitted] This is considerably more than the Federal Court target of disposal of all cases (except native title) within 18 months. IPRIA's study indicated that the parties in litigation may sometimes be responsible for the extent of these delays.¹⁷

The next difficulty identified was the financial one. This took several forms. When there is financial disparity between the stakeholder and the alleged infringer, there is a resistance to take on a 'Goliath'. ACIP referred to a submission made in a qualitative analysis undertaken by IPRIA, which stated:

In my experience, small players playing Goliath will not take action. A small player will even be cautious about writing a letter of demand, knowing full well the big player will use the unjustified threat procedure to commence proceedings, and then it's out of your control.¹⁸

IPRIA's survey of Australian inventors found that a significant number of inventors felt that they did not have the resources to pursue the matter through the courts or even send a letter of demand.¹⁹

The high cost of patent litigation also presents a problem for legitimate challenges to the patent's validity:

Lack of financial capacity is equally a problem for challengers to the validity of a patent. If the patent is not valid and the challenger cannot afford good legal representation, the patent may stay in force, creating uncertainty in the marketplace.²⁰

The disadvantage in such a case has an impact not only on the competitor who fears the costs of an application to revoke a patent, but to the public, which is deprived of a competitor.²¹

The high cost of patent litigation may lead to a strategy of 'game playing' whereby a financially stronger party seeks to exhaust their opponent through the strategic use of some of the processes used in patent litigation. For example, in a

¹⁷ *Ibid.*

¹⁸ The ACIP 2010 Report p26.

¹⁹ IPRIA working paper 10/2009 referred to in the ACIP 2010 Report p26 footnote 49.

²⁰ The ACIP 2010 Report p26.

²¹ *Ibid.*

process patent, the alleged infringer may resist inspection of their process, forcing the applicant to seek interlocutory orders for inspection and incurring costs in doing so.

Submissions to ACIP suggested that high legal costs could be explained by four factors:

- the need to obtain specialised legal advice;
- the need to obtain expert witnesses;
- the legal process of discovery between the parties; and
- the time involved in explaining complex and technical issues to the judge (increasingly prevalent in many patent disputes).²²

The third difficulty identified was informational issues, such as built-in costs associated with patent enforcement and a lack of knowledge about the process, technical and legal issues.²³

Relevantly, ACIP stated:

The two most significant informational issues are uncertainty and lack of knowledge. “Uncertainty” includes the built-in cost for all parties to a dispute which has an uncertain outcome, while “lack of knowledge” covers knowledge about the process, technical and legal issues by parties involved.²⁴

The uncertainty was not limited to the parties but also to professionals. It was considered that this uncertainty was caused by the complexity of the law and the inconsistent application of legal principles.²⁵

ACIP's recommendations

The ACIP recommendations included the establishment of a Patent Tribunal. By way of background, Australia does not have a dedicated Intellectual Property jurisdiction, with the exception of the Copyright Tribunal established under the *Copyright Act 1968*.²⁶

ACIP recommended (in Recommendation 3):

That an embodiment of the determination mechanism in the IP Dispute Resolution Centre is provided in the form of a Patent

²² The ACIP 2010 Report p27.

²³ The ACIP 2010 Report p28.

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ The Copyright Tribunal has presiding as President and the two Deputy Presidents, justices of the Federal Court of Australia.

Tribunal along the following lines:

- (a) Each Tribunal hearing panel to comprise up to 3 people, integrating legal and technical expertise;
- (b) Tribunal hearing panel members to be drawn from the register of experts established under Recommendation 2;
- (c) Patent attorneys to have a right to appear;
- (d) The Tribunal to have more streamlined procedures and simplified evidentiary requirements than a court;
- (e) The Tribunal to take a pro-active and inquisitorial role;
- (f) Mechanisms be introduced to encourage parties to comply with the Tribunal's non-binding determinations, and to discourage parties from using the courts instead of the Tribunal where it would be appropriate to do so; and
- (g) That the effectiveness of the Patent Tribunal be monitored from its date of establishment.²⁷

The mechanisms envisaged in paragraph (f) included costs penalties for bypassing the Tribunal in favour of the Courts, even against a successful party before a Court.

The Government however in its response rejected the recommendation that a Patent Tribunal be established.²⁸ The Government considered the following factors weighed against the acceptance of the recommendation:

- the inability of the Tribunal to make binding decisions;
- the requirement that both parties submitted to the Tribunal;
- the limited range of mechanisms by which parties could be encouraged to abide by the Tribunal's decisions;
- the constitutional issue that a Tribunal as constituted in the recommendation could not make judicial decisions as it was not a court (the constitutional issue);

²⁷ The ACIP 2010 Report Recommendation 3 at p45.

²⁸ See the Government response at:

http://www.acip.gov.au/library/post_grant_strategies_response.pdf

- the Tribunal represented another layer in the appeal process;
- The cost of the Tribunal outweighed any perceived benefits.

The Government's response²⁹

In explaining its rejection of Recommendation 3 in ACIP's Final Report, the Government stated:

In its report, ACIP considered the establishment of a non-judicial tribunal which has the power to issue determinative judgments. However, this is not viable because judicial power may not be vested in a body unless it is a 'court' within the meaning of s.71 of the Constitution.

ACIP recommends that a Patent Tribunal without the power to issue binding determinations be established as an alternative. The Government considers that this model has limited benefits. Both parties in a dispute would have to agree to use the Tribunal. Its decision would not be binding and mechanisms to encourage the parties to abide by its decisions would be limited. Such a body may therefore only add another layer of appeal.

Parties in dispute already have the option of agreeing to arbitrate in a form of ADR. As noted in its response to Recommendations 1 and 2, the Government is committing to improve the information available on ADR for IP matters.

On balance, the Government considers that the costs of a Patent Tribunal to the parties in a dispute, in particular the potential uncertainty created by such a body, outweigh the potential benefits at this time.

The Government's response indicates that it had several concerns about the proposed Tribunal, including:

- Whether the establishment of the Patent Tribunal offended s 71 of the Constitution by vesting a 'judicial power' in a body other than a 'court'.
- Following on from this, the potential uncertainty about the constitutional validity of the proposed Patent Tribunal.
- Consent of both parties would be required to submit to the Tribunal.
- An Alternate Dispute Resolution process (ADR) was already available to the parties.

²⁹ Issued 3 June 2011 and available at http://www.acip.gov.au/library/post_grant_strategies_response.pdf

- The Government was already working on making more information available to the parties going to ADR in IP matters.
- Costs of the Patent Tribunal would amount to an additional layer of expense.

The Government emphasised the value of ADR for reducing the costs of patent litigation, stating in response to ACIP's recommendation 2:

The Government believes that alternative dispute resolution (ADR) mechanisms can provide significantly quicker and cheaper avenues for enforcing patent rights.

Recent relevant developments

In an effort to have parties resolve disputes before they even commence litigation, the Federal Government has introduced legislation which requires that parties take genuine steps to resolve disputes before process is initiated.³⁰

The Honourable Patrick Keane, (then) Chief Justice of the Federal Court of Australia, issued a number of Practice Directions,³¹ commensurate with the introduction of the new Federal Court Rules. These included practice directions in relation to the 'Fast Track' system within the Court. The Fast Track directions are applicable to:

- (i) commercial transactions;
- (ii) matters where there is an issue that has importance in trade or commerce;
- (iii) the construction of commercial documents.

It aims to remove undue formality in pleading processes and a series of scheduling conferences to narrow the issues.

Although the directions specifically note that they are to apply to intellectual property rights, patents are excluded. However, a more streamlined process of patent enforcement might merit reconsideration for the Fast Track process.

Notwithstanding these initiatives to drive the parties to resolve disputes early or to at least narrow the issues at an early stage, patent litigation remains an expensive, uncertain and for many SMEs, a prohibitive option.

³⁰ The *Civil Disputes Resolution Act* 2011 (Cth) was enacted on 1 August 2011.

³¹ Effective from 1 August 2011.

The Korean example – the Intellectual Property Tribunal

Since the 1960s, the Republic of South Korea has maintained a forum known as the Intellectual Property Tribunal (IPT), which operates independently within the Korean Intellectual Property Office (KIPO). The IPT consists of 3 divisions:

- Eleven (11) boards for trials, each comprised of 3 administrative patent judges who are senior examiners in KIPO;
- The Trial Policy Division, and
- The Litigation Division.

The IPT hears matters by way of oral hearings or hearings on the papers or documentary proceedings. Some matters are heard *ex parte*, such as appeals against the commissioner's decision of rejection. IPT matters heard *inter partes*, include applications seeking:

- the invalidation of a patent;
- the correction of a patent, or
- determination of the scope of a patent.³²

The IPT's decision is appealable to the Patent Court, which has exclusive jurisdiction over all cancellation appeals from diverse decisions rendered by the IPT.³³

Invalidation of a patent

In relation to applications for invalidation of a patent, KIPO explains:

Due to a mistake of an examiner or appeal examiners, some patents which should not have been granted may exist. In such cases, an interested party or examiner may demand a trial to invalidate the patent. For a patent containing two or more claims, a demand for a trial of invalidation may be made for each claim.³⁴

An application may be made by an interested party or an examiner.³⁵

Correction of a patent

A defendant under Article 133(1) may request a correction to the description or drawing(s) of a patented invention during the course of an invalidation trial, provided that the correction falls under any of the subparagraphs under Article 136(1) within the designated period.³⁶

³² <http://www.kipo.go.kr/kpo/user.tdf?a=user.english.html.HtmlApp&c=30300&catmenu=ek30300#a3>

³³ Ibid.

³⁴ The Patent Act: Article 133.

³⁵ Ibid

³⁶ The Patent Act: Article 133bis.

Provided an IPT invalidation trial is not pending, a patentee has the opportunity to request a trial to correct the description or drawing(s) of a patented invention in the following cases:

- where the scope of claims is narrowed;
- where a clerical error is corrected;
- where an ambiguous description is clarified.³⁷

Scope of the claims

The IPT can determine the scope of a patent. An application may be made by the patentee, an exclusive licensee or an interested party, who may request a trial to confirm the scope of a patent right.³⁸ When such a request is made, if the patent right contains two or more claims in the scope of claims, a request for a trial to confirm the scope of a patent right may be made for each claim.³⁹

The IPT is therefore concerned as a general observation, with the validity of a patent.

Infringement

Questions of patent infringement and damages are determined at first instance by the District Court. Whilst infringement proceedings are pending, it is possible – and not uncommon - to receive a determination by the IPT on the validity of the patent, the subject of the District Court infringement lawsuit. For example, Given Imaging Ltd ('Given'), a pioneer of capsule endoscopy, had filed a patent infringement lawsuit against Intromedic in Seoul's Central District Court in November 2011. Given asserted that Intromedic's capsule endoscope, marketed under the brand name MiroCam, infringed two of its Korean patents. In response, Intromedic commenced proceedings before the KIPO to invalidate the two patents asserted by Given. In July 2012 the IPT ruled that Given's two Korean patents asserted against Intromedic in the Seoul Central District Court were valid.

Statistics

The KIPO Annual Reports disclose the following relevant information:

- In 2005,⁴⁰ the number of petitions to the IPT were 7,142 patent cases of which:
 - 6,365 were *ex partes*; and

³⁷ The Patent Act: Article 136.

³⁸ The Patent Act: Article 135(1).

³⁹ The Patent Act: Article 135(2).

⁴⁰ KIPO Annual Report 2010 at p79.

- 777 were *inter partes*.
- In 2008,⁴¹ the number of petitions to the IPT were 12,238 patent cases of which:
 - 11,055 were *ex partes*; and
 - 1,183 were *inter partes*.
- In 2011, the number of petitions to the IPT were 9,664 patent cases of which:
 - 8535 were *ex partes*; and
 - 1,129 were *inter partes*.⁴²

Of the applications to the IPT, both *ex parte* and *inter partes*, the number of successful petitions followed by their ratio to the total number of applications were as follows:

Table 1: KIPO TABLE OF SUCCESSFUL PETITIONS

Successful petitions to IPT										
Classification	2007		2008		2009		2010		2011	
Ex Partes	1,650	35.7%	1,247	29.5%	926	24.5%	1,100	28.0%	1,248	28.8%
Inter Partes	571	53.5%	541	52.4%	499	52.8%	500	47.9%	552	48.5%

Suitability of the Korean model in the Australian context

There are two main difficulties associated with any proposal for adoption of the Korean model as a solution to streamlining the Australian patent enforcement system. Both of these difficulties were identified by the government in its response ACIP’s recommendation for the establishment of a Patent Tribunal.⁴³

Firstly, the introduction of a Patent Tribunal might offend s 71 of the Constitution as ‘judicial power’ would be vested in a body other than a ‘court’. This criticism has weight notwithstanding that an independent experts panel of the kind recommended by ACIP, would be constituted differently from the KIPO-administered IPT.

Secondly, the introduction of a Patent Tribunal into the system would add another adversarial layer to the litigation proceedings. This layer would take the form of a validity hearing at which the parties present their respective cases, including the evidence of their respective experts.

Both of these criticisms are valid. Any proposal to add another adversarial venue, at which competing evidence is presented and an appealable decision given,

⁴¹ KIPO Annual Report 2011 at p78.

⁴² Ibid.

⁴³ Government Response to ACIP report, above n26.

can only add to the overall expenses and delay associated with patent enforcement. Of far greater appeal is a system which utilises the mechanisms we have *already in place* and has the effect of potentially saving money and time.

A proposed model – the Expert Panel Opinion

This paper proposes a new model which borrows an important feature of the Korean IPT system – a panel of three experts who are independent of the parties. However, rather than establishing a Patent Tribunal which would deliver a decision, the proposed Expert Panel Opinion would be directed by the Court, under rule 23.01 of the Federal Court Rules 2011, to provide it with an opinion on validity.

The new Federal Court Rules 2011 provide⁴⁴ as did the old Rules⁴⁵, for the appointment of a ‘Court expert’. Both the old rules and the new rules specifically provided for the appointment upon the application of a party.⁴⁶

Under the new rules this may be done upon the application of a party ‘to inquire into and report on any question or on any facts relevant to any question arising in a proceeding’.⁴⁷ The opinion would not give rise to any presumptions of validity,⁴⁸ and the judge is not at all bound by the opinion.

The Explanatory Statement to the 2011 rules states that the power to appoint a court expert has not changed but clarifies the role:

Part 23 adopts, simplifies and streamlines the process and procedures which operated under the former Rules. It does not substantially alter existing practice but provides better guidance to parties and experts on requirements and obligations.

Alternately, the Court could appoint the panel on its own volition, to provide the joint opinion on validity, under the General Powers of the Court.⁴⁹ In any event, it would seem to be a minor amendment to accommodate this model, to insert in Rule 23(1) a clear statement that alternately to a party applying for such an order, the Court may make the order on its own volition.

The *Uniform Civil Procedure Rules 1999* of Queensland, for example, provide at Rule 429J for the Court to appoint expert/s on its own initiative. In addition, there is

⁴⁴ Rule 23.01.

⁴⁵ O 34 r 2 of the old FCR.

⁴⁶ *Ibid.*

⁴⁷ Rule 23.01(1)(a) FCR 2011.

⁴⁸ *Patents Act 1990* s 20.

⁴⁹ Division 1.3 of the FCR 2011.

a mechanism in Rule 429G for the parties to nominate 3 experts from which one court expert is selected. However, even in this case, the Court may act on its own initiative:

(3)the court may, on its own initiative and at any stage of a proceeding, if it considers that expert evidence may help in resolving a substantial issue in the proceeding, appoint an expert to prepare a report on the issue.

A mechanism to assist the Court

As pointed out by the Federal Court in its submission to the ACIP review, several Federal Court judges have considerable expertise and experience in the area of patent law:

A key element to ensuring the streamlined (and economical) conduct of patent cases is for the court to have the expertise and experience to identify and oversee the most appropriate mechanisms for managing the litigation. The intellectual property judges of the Federal Court have the expertise and procedural tools to streamline the conduct of intellectual cases to avoid unnecessary or otherwise inappropriate procedures. This expertise has been recognised by Government, the profession and litigants. It is also reflected in the fact that very few patent matters are commenced in the State and Territory Supreme Courts.⁵⁰

The Federal Court judges would have the benefit of three experts advising the Court, those experts being independent of the parties. Further, one party is likely to have the benefit that an opinion on validity favouring their case may remove the need to brief an expert.

The recommended model does not remove the ability of the parties to obtain their own independent experts. However, the Expert Panel Opinion for the Court from a panel of three senior examiners of IP Australia, impacts upon the traditional position followed in the Federal Court, where the judge must prefer one parties' expert opinion over another. The position will therefore be under the recommended model, that the Court will have an objective opinion on validity, which may be tested by the parties' experts.

It is suggested that this model will address issues identified by ACIP as obstacles to enforcement and address concerns the Government expressed in rejecting the ACIP recommendation.

Firstly, an objective opinion on validity would be obtained without excessive additional financial burden on the parties. As will be explained later in this paper,

⁵⁰ Federal Court submission to ACIP 30 September 2009 at page 2.

the contribution to costs of the Expert Panel Opinion may in many cases, obviate the need for a party to brief their own expert.

The Expert Panel Opinion would express a majority view as the panel would in the normal course comprise of three members. ACIP suggested that a contributing factor to the large legal fees in patent enforcement was the costs associated in familiarising the judge with the technical matters.⁵¹ In the recommended model, the judge could liaise with the Court's panel of experts to seek any technical clarification the judge might require.

Secondly, the Court's Expert Panel Opinion becomes a valuable tool in mediation of the dispute. For the respondent in an infringement action, an unfavourable opinion on validity will place greater pressure on the respondent's non-infringement case as well as greater emphasis on the correctness of their own expert. It is not uncommon in patent cases for the respondent to approach the matter from the perspective that they accept that if the patent is valid, their conduct constitutes infringement.

For the applicant, an unfavourable Expert Panel Opinion on validity will create the risk that there is no infringement claim at all. An opinion by the Expert Panel, favouring invalidity will also place greater emphasis on the correctness of the applicant's own expert and the prospect of losing the patent altogether becomes a very real possibility. In such a situation, the parties might be amenable to an irrevocable non exclusive licence to the patent on favourable terms, in exchange for a non challenge by the respondent.

In a heightened risk situation, the parties are likely to be more willing to negotiate a commercial resolution in an ADR environment, particularly if their own expert has difficulty in faulting the Court Expert Panel Opinion.

The introduction of the Court Expert Panel Opinion at an early stage of the proceeding is consistent with the Government's position on the value of dispute resolution at an early stage of dispute. Generally, parties will be less likely to want to spend more money if there is a heightened risk of an adverse costs order. This is the expected result for the party facing an Expert Panel Opinion which is against them on validity.

Thirdly, if the matter proceeds to trial, the Expert Panel Opinion provides the judge with an objective platform from which to commence the hearing. In this regard reference is made to the Federal Court Practice direction which states:

⁵¹ Above n21.

Additionally, it is hoped that the guidelines will assist individual expert witnesses to avoid the criticism that is sometimes made (whether rightly or wrongly) that expert witnesses lack objectivity, or have coloured their evidence in favour of the party calling them.⁵²

Fourthly, there is no Constitutional issue, as the Court has the power to appoint a Court expert or experts. The infrastructure is there. There will need to be attention to the appointment of appropriate panel members for the various technologies involved, however, there are no costs associated with forming a new Tribunal.

Fifthly, the mechanism of the Expert Panel Opinion to assist the Court, does not add a layer of adversarial costs to the parties. It is not an adversarial forum. If anything, it has the potential to reduce the costs, as the party who is supported by the Expert Panel Opinion on validity, may consider it unnecessary to obtain their own expert. Similarly, the party not supported by the Expert Panel Opinion, may find a commercial resolution far more appealing than obtaining an opinion to challenge the Expert Panel Opinion.

Sixthly, there is a 'fall back' position for the Court. In the rare cases where there may not be three experts in IP Australia, who are able to give an opinion on validity by reason of the narrow technical area of the 'skilled addressee', the Court may always rely on its powers to appoint a Court expert under the rules. Although there will be an expense shared by the parties, the benefits, particularly from an ADR perspective will still remain.

Assistance in ADR

In a survey of patent infringement cases in Australia, IPRIA found that approximately 85 per cent of patent cases settle, with peaks in settlements occurring within the first 100 days, then again between 200 to 300 days.⁵³ These findings support the view that the availability to the Court of the Expert Panel Opinion on validity at an early stage of the proceedings would assist in the earlier resolution of disputes.

An objective indication of the strength of the attack on the validity of the patent in suit would provide a valuable insight on the prospects of validity and in some cases upon infringement. The insight would be gained at an early stage before the expensive processes of evidence (particularly expert evidence) and discovery

⁵² Practice Direction CM7 dated 1 August 2011.

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

have been undertaken. Of course, a party whose position is weakened by the Expert Panel Opinion on validity may wish to brief its own expert, which it is entitled to do.

In 2009, IP Australia also considered that early identification of the patent opponent's case could lead to an early resolution of the opposition. Relevantly, it commented that its proposal to require the patent opponent's evidence in support to be provided no later than three months after the date of filing of the notice of opposition (rather than three months after the date of the statement of grounds and particulars) would:

...give the applicant the benefit of viewing the evidence in support at an early stage in the opposition process. In the case that the statement and evidence reveal a strong or a weak enough case—this proposal could even lead to early resolution of an opposition by the applicant withdrawing or amending the opposed application or by the opponent withdrawing the opposition.⁵⁴

Similarly, an objective opinion would usually identify the strength or weakness of the case in revocation proceedings.

The introduction of the Expert Panel Opinion would militate against disparity between the parties in the ADR process. In 1999, I wrote that a financially superior party may have an advantage in either the court adjudication process or in mediation. NADRAC has said that in ADR, as in any other dispute resolution process, the participant with the greater resources who can hire a lawyer, afford to wait and to raise more issues will have an advantage over other participants.⁵⁵

The introduction of the Expert Panel Opinion on validity will have the effect, where the opinion supports a financially stronger participant in the mediation, of giving the weaker participant a 'wake up call' to end the litigation. This is a very valuable tool for those passionate inventor/patentees who consider (erroneously) that a grant of a patent results in an indefeasible title in the invention.

Similarly, if the Expert Panel Opinion does not support a financially stronger participant, it will bridge the power gap between the parties and create a greater equality between the participants. In such circumstances, mediation will have greater prospects of success, by reason of one simple circumstance: the risk to one party will be raised by an adverse Expert Panel Opinion.

⁵⁴ 'Toward a stronger and more efficient IP rights system: Resolving patent opposition proceedings faster', IP Australia Consultation Paper June 2009, at [48].

⁵⁵ Eliades, Dimitrios (1999) "Power in mediation - some reflections," *ADR Bulletin*: Vol. 2: No. 1, Article 2.

Response to Government's concerns

In addressing the concern of the Government, expressed in its response to the ACIP recommendation 3:

- The proposed model does not offend s 71, as it is an exercise of a power the Court already has – the Court may make an order for a Court expert on the motion of a party (rule 23.01) or of its own motion (see rule 1.40 and a note to rule 23.01).

The term "judicial power" was defined by Chief Justice Griffith of the High Court of Australia in *Huddart Parker v Moorehead*⁵⁶ and was expressed as:

the power which every sovereign authority must of necessity have to decide controversies between its subjects or between itself and its subjects, whether the rights relate to life, liberty or property.⁵⁷

The essence of 'judicial power' therefore is 'decision'. The Expert Panel Opinion is not a decision or determination but rather an opinion to assist the Court.

- With respect to the concern that consensus of the parties is required, the Court may make an order for a Court expert on the motion of a party (rule 23.01) or of its own motion (see rule 1.40 and a note to rule 23.01).
- In respect of existing avenues to ADR being available for the parties at present, it is clear to anyone who participates in ADR, that where the parties go to mediation with their own perspective, supported by their own experts, there is understandable reliance placed on their own polarised position.

However, where there is an objective piece of evidence, such as the Expert Panel Opinion, there is considerably more scope for resolution because one party faces an objective opinion detrimental to its success in the proceeding.

The following observations are also made:

- There is a potential to reduce the costs of the litigation. The Court experts' briefing, which would be by agreement between the parties and failing agreement by direction of the Court, would enable the production of a

⁵⁶(1909) 8 CLR 330.

⁵⁷ Ibid at 357.

valuable resource in the dispute – an objective view of the vulnerability of the patent.

- The *Intellectual Property Amendments (Raising the Bar) Act 2012* ('*Raising the Bar Act*') strengthens patents by requiring more rigorous examination procedures and extending the geographic territory from which the common general knowledge of the skilled addressee might be drawn, for the purpose of inventive step. The proposed system compliments this purpose, by scrutinising the patent at an early stage of litigation.
- The 'shifting' of the first opinion on validity to the Court experts, will be welcomed by patentees, who could otherwise be discouraged with the process which involves investing substantial time and money well before the evidence supporting the parties' respective positions begins to be exposed.
- Of course, the parties do not have to accept the Expert Panel Opinion, but it is likely to have the effect that the parties consider other options at an early stage such as licensing the patent or altering their process or product to avoid infringement. These matters whilst not able to be of benefit in the pre-initiating period envisaged by the *Civil Disputes Resolution Act 2012* will provide an early opportunity to face the realities of a patent case, its perceived validity or its perceived vulnerability.
- The Court experts become a resource for the judge. If the parties' experts raise an issue not directly identified by the Court experts or the judge considers he or she might benefit from the response of the Court experts, the judge may seek further clarification or responses from the Court's panel.

Objectivity of IP Australia experts

An important issue is whether the proposed Expert Panel – comprised of officers within IP Australia - would be able to operate with the necessary degree of objectivity in the circumstances. In particular, a concern may be that there may be a tendency for panel members to be unwilling to express views on patent validity that may be seen as implicitly criticising IP Australia and its scrutiny process. However, these concerns are not borne out by the Korean experience with a similar model.

The statistics in Table 1: KIPO Table of Successful Petitions indicates that the average ratio of successful *inter partes* applications over a 5 year period was 51.02%. In short, approximately half of the challenges to validity handled by the IPT were successful. Of course, one would expect that with the amendments to the *Patents Act*

introduced by the *Raising the Bar Act* directed to strengthening patents, this will impact on the number of successful challenges.

The Expert Panel's appointment

The appointment of the Expert Panel raises practical issues. These issues are related to its selection, cost and the briefing materials it will consider. The following questions are considered:

1. Who is to pay for the expert report?
2. Who is to select the experts?
3. On what materials is the expert report to be based, and who is responsible for providing those materials to the expert?

In addressing these matters, it is important to adopt practices which are, as far as possible, consistent with the fundamental premises of this recommended approach. These include:

- That the Expert Panel will not in the majority of cases add additional costs to the litigation but will reduce costs and promote early resolution.
- That the Expert Panel is in the true sense the Court's panel of experts and the formulation of the Expert Panel Opinion is not compromised by exchanges in the form of submissions, directly with the parties.
- That the Expert Panel have before it all material the Court and the parties consider relevant.
- That as far as possible the existing mechanisms of the Court are utilised.

Who is to pay for the expert report?

The Federal Court Rules provide that a party may apply to the Court to fix the Court expert's remuneration, including the cost of preparing the expert's report.⁵⁸ As the Expert Panel is first to be selected from the personnel within IP Australia, it seems logical that the government could calculate a fee for the Expert Panel Opinion. The fee would not necessarily be nominal, but would be expected to be reflective of a saving the government might expect to receive from the early resolution of complex patent matters.

⁵⁸ Rule 23.01(1)(b) FCR 2011.

It is expected that a revenue source will be more palatable to IP Australia, than burdening its skilled personnel with greater workloads.

The cost, consistent with the Federal Court Rules is payable jointly and severally by the parties.⁵⁹ The shared cost of the expert panel opinion should ideally be substantially less than the cost borne by each party for its own expert opinion. It is to be recalled that, under the proposed model, the parties may choose not to seek their own expert evidence following the Expert Panel Opinion.

Under the *Uniform Civil Procedure Rules 1999 (Qld)* ('UCPR (Qld)'), the Court may make the orders and give the directions it considers appropriate in relation to a court appointed expert, including, a direction about the liability for fees and expenses payable to the expert.⁶⁰

It is however, foreseeable that the party who is not supported by the Expert Panel Opinion on validity may seek to appoint its own expert and risk incurring additional fees. Even if that party were the Goliath of the proceeding it will have to contend with the Expert Panel Opinion in appointing its own expert.

In circumstances where IP Australia does not have three skilled addressees to provide the expert panel opinion, the Court has the flexibility under the FCR to appoint:

- an expert outside IP Australia and make directions that the outside expert liaise with the experts in IP Australia to produce a joint opinion;
- an expert outside IP Australia where there are no skilled addresses in IP Australia and make directions as to the conduct and delivery of the report including the shared cost of that expert's remuneration.

Who is to select the experts?

The expert panel is to be selected by IP Australia from within IP Australia. IP Australia presently appoints the examiners of patent applications, where similar considerations of validity are undertaken.

IP Australia should be provided with a statement of the qualifications required to render the Expert Panel Opinion. This would be a useful and cost effective step as it would minimise doubts about the qualifications required of the expert.

⁵⁹ Rule 23.01(2) FCR 2011.

⁶⁰ Rule 429M of the UCPR (Qld).

In ruling on evidence in a patent infringement action, in *Fina Research SA v Halliburton Energy Services Inc* [2003] FCA 55 ("*Fina Research*"), Moore J said in relation to the applicant's expert:

It is tolerably clear from the patent application that it concerns the formulation of a drilling mud in a manner identified in the application with certain chemical characteristics designed to create both physical and chemical properties in the mud that, amongst other things, deal with known and anticipated problems associated with the use of the mud, including minimising its impact on the environment and creating a mud which is flowable and pumpable and not corrosive. In my opinion, the appropriate characterisation of the attributes of a notional addressee is a person with a requisite specialised knowledge in formulating drilling mud. The question that immediately arises is whether Professor Kagi is such a person or can give evidence which, together with other evidence, creates the construct of such a person.⁶¹

His Honour determined that Professor Kagi could not assist the Court. Relevantly, his Honour said:

It cannot be doubted for present purposes that Professor Kagi has general expertise as a chemist with considerable knowledge of, and experience with, the petroleum industry. However, he does not give evidence that he has in the past formulated drilling mud used in that industry, and thereby has addressed (or otherwise addressed) what might be or should be all the various components of a mud to create a useable mud with particular, and perhaps desirable, attributes. Without such an involvement and the acquisition of specialised knowledge (from that involvement or otherwise) to do so, he is not, in my opinion, in a position to give relevant evidence of assistance to the court concerning the formulation of drilling mud bearing on the meaning of a patent application and *Barthel*, the issue of novelty and the issue of obviousness: as to the desirability of approaching purportedly relevant expert evidence with some circumspection one has regard to the judgment of the Court of Appeal in New South Wales in *Makita (Australia) Pty Ltd v Sprowles* [2001] NSWCA 305 and *Minnesota Mining and Manufacturing Company v Tyco Electronics Pty Ltd* [2002] FCAFC 315, though one must also have regard to the Full Court of this Court in *Sydneywide Distributors Pty Ltd v Red Bull Australia Pty Ltd* (2002) 55 IPR 354. Accordingly, were leave given to read his affidavit, I would reject it as containing evidence, which did not satisfy

⁶¹ *Fina Research* at [4].

the threshold requirement of s 56 of the Evidence Act.⁶²

The identification of the skilled notional addressee may be done by agreement between the parties or, failing agreement, by the Court's decision as to the skills required to give the Court the best assistance in the matter. In practice the absence of challenge to another party's expert is usually but not always indicative of an acceptance of a party's expert.

Where the Court seeks to appoint an expert from outside IP Australia, as in a case where IP Australia does not have such an expert, the Court may:

- ask each party to name at least 3 experts who:
 - are qualified to give expert evidence on the issue; and
 - have been made aware of the content of this part and consent to being appointed; and
- require each party to state any connection between an expert named and a party to the proceeding; and
- receive other material and make other enquiries to help decide which expert to appoint.⁶³

On what materials is the Expert Panel Opinion to be based, and who is to be responsible for providing those materials to the expert?

The briefing to the members of the Expert Panel may be a joint briefing prepared by the parties, raising the specific issues on which a response is required. Failing agreement, the parties may brief the Expert Panel independently, particularly where there may be commercially sensitive information disclosed and a regime to limit the access to lawyers and experts is implemented.

As a general observation, one would expect that the respondent challenging the validity of the patent would seek to include in the briefing bundle provided to

⁶² Ibid at [8]. See also *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd* [2012] FCA 467 (Middleton J, 9 May 2012). In *Britax* a joint report narrowed and identified the construction issues. His Honour said at [207]:

The joint report and concurrent evidence at trial were successful in identifying for the Court the competing arguments on the central issue in this proceeding, namely, construction. I will need, however, to return to the specific objection made by each of the parties as to the question of whether either expert witness was a "skilled addressee" or was otherwise capable of assisting the Court. If the expert witness was not a "skilled addressee" or not otherwise capable of assisting the Court, then the evidence would not be relevant, and hence would not be admissible in any event despite compliance with s 79 of the Evidence Act.

⁶³ UCPR (Qld) Rule 429].

the Expert Panel, all ‘*prior art information*’ as that term is defined in Schedule 1 of the *Patents Act* 1990 (Cth).

In this regard, the Federal Court Rules require detailed particulars of the grounds of invalidity on which the party relies.⁶⁴ There may be a tendency to include a claimed anticipation or other prior art information because a party is not entitled to tender any evidence in, or make any submissions in support of, a ground for revocation or rectification not stated in the application.⁶⁵

However, the practice of numerous citations in opposition proceedings before the Commissioner is not mirrored to the same extent in the Federal Court. A possible explanation is the discretion of the Court in relation to costs as expressed by Kenny J in *SNF v Ciba*:

Generally speaking, however, a trial judge will only order the successful party to pay the other party’s costs of an “issue” if the successful party’s conduct at trial was such as to prolong unreasonably the proceedings or for some other like reason: see *Ruddock v Vadarlis (No 2)* 115 FCR at 236; and, more recently, *Roadshow Films Pty Ltd v iiNet Ltd* [2010] FCA 645; (2010) 269 ALR 606 at 610-613.⁶⁶

In addition to these particulars there would be expected to be documents supporting other claims that the patent is not a patentable invention. These relate to the manner of manufacture,⁶⁷ lack of utility ground⁶⁸ and the secret use ground.⁶⁹ In some cases, the Court may consider that they raise issues of fact not dependant on technical skill or that the Court might be assisted by the consideration of a discrete technical point from which the factual consequences might determined.

Of the remaining grounds for revocation of a patent:⁷⁰

- the ground of lack of entitlement is severely hamstrung by the introduction of an administrative regime under the *Raising the Bar Act*;⁷¹

⁶⁴ Rule 34.46 of the FCR 2011.

⁶⁵ Rule 34.46(4) of the FCR 2011.

⁶⁶ *SNF (Australia) Pty Ltd v Ciba Speciality Chemicals Water Treatments Limited* (No 2) [2011] FCA 656 at [9].

⁶⁷ *Patents Act* s 18(1)(a) and s 18(1A)(a)

⁶⁸ *Patents Act* s 18(1)(c) and s 18(1A)(c).

⁶⁹ *Patents Act* s 18(1)(d) and s 18(1A)(d).

⁷⁰ *Patents Act* s 138(a), (d), (e) and (f).

⁷¹ Schedule 6 Item 31 of the *Raising the Bar Act*:

22A Validity not affected by who patent is granted to

A patent is not invalid merely because:

- the grounds that the patent or an amendment to the patent were obtained through fraud, false suggestion or misrepresentation,⁷² should predominantly be matters of conduct which may raise discrete technical issues for the Expert Panel Opinion.
- The grounds under s 40⁷³ are likely to raise discrete issues for the expert panel such as clarification of terms of art and what the Expert Panel understands from certain terms used in the specifications.

Two issues arise therefrom. Firstly, it is imperative that the parties consider that the prior art information has been available for consideration by the Expert Panel. The effectiveness of the Expert Panel Opinion in mediation would be undermined at least from the respondent's perspective, if a relevant document was not considered.

Secondly, the briefing exercise should not be used as an opportunity to make submissions and turn the briefing to the Expert Panel Opinion into a mini 'adjudication', whereby the panel receives extensive submissions. The Expert Panel will receive a bundle of documents and either a joint list of questions to be addressed or each party's list of questions.

The issue of novelty raises the prior art information for consideration as free standing prior disclosures, which may be considered on the face of the document or information. Where there may be a case for reading documents together, the preferred method would be to construct a question which accommodates this circumstance rather than permit submissions arguing that two documents should be read together. For example, the Expert Panel would be asked to consider:

1. Does patent A anticipate the patent in suit?
2. Does patent A anticipate the patent in suit if read with patent B?
3. Would a skilled person be reasonably expected to have ascertained, understood, regarded as relevant and combined the information in patent A and patent B?

It should also be noted that the relevant area for the common general knowledge of the skilled person for the purpose of inventive step in s 7(2) of the

-
- (a) the patent, or a share in the patent, was granted to a person who was not entitled to it; or
 - (b) the patent, or a share in the patent, was not granted to a person who was entitled to it.

⁷² *Patents Act* s 138(3)(d) and (e).

⁷³ *Patents Act* s 138(3)(f).

Patents Act and 'innovative step' in s 7(4), will be now broadened by extending this knowledge from Australia to the world.⁷⁴

Ideally, issues arising for clarification should be considered by the Court, which will direct the content and form of the issues to be raised for the Expert Panel Opinion. In this regard, the Court may make the orders and give the directions:

- to facilitate the preparation of the Expert Panel Opinion;
- requiring a party to provide the Expert Panel with relevant information;
- regarding the extent a party may communicate with the Expert Panel;
- regarding inspection, examination or experiment by the Expert Panel;
- allowing the Expert Panel to consider a report from another expert in a discipline relevant to the issue in relation to which the other expert was appointed;
- regarding provision of the report to the registrar;
- regarding the payment of the Expert Panel's fees;
- regarding the registrar's fees;⁷⁵
- requiring a party relying on a prior art information to have the document translated and directions as to those expenses.

Under the new Federal Court Rules (as did the old rules), there does not appear to be a clear direct provision for the court to appoint an expert on its own initiative.⁷⁶ The Court however, could make the directions pursuant to its general power to make directions for the management, conduct and hearing of a proceeding.⁷⁷

Conclusion

The proposed use of an Expert Panel of three experts drawn from within IP Australia has a number of benefits. The advantages of the proposed model flow from the shift from a more expensive contest between adversarial experts usually at the hearing of the matter, to the use of an objective panel of experts advising the Court.

⁷⁴ *Raising the Bar Act* Schedule 1 Part 1 Items 2 and 4.

⁷⁵ UCPR Rule 429M.

⁷⁶ FCR 2011 Rule 23.01; FCR 1979 Order 34 rule 2.

⁷⁷ FCR 2011 Rule 5.04.

The Federal Court has the skill and expertise to efficiently determine patent cases. It also has a mechanism to adopt the proposed model without great change as do the Supreme Courts of the States.

Further, the Expert Panel Opinion is both an objective aide to the Court on the question of validity and a valuable tool in the ADR process at an early stage of the proceeding. It either places greater emphasis on the respondent's defence to infringement or heightens the risk for the patentee that the patent in suit might be revoked. Commercial solutions such as licensing, will take on a new appeal, particularly for the patentee, in cases where the Expert Panel Opinion is against the patentee on validity.

The parties are not deprived of presenting conflicting expert evidence and therefore conducting their cases, just as they are entitled to do. In addition, there is no need for consensus between the parties to appoint the Expert Panel as this can be done on the application of one party or by the Court. The process of obtaining the Expert Panel Opinion does not add another layer of adversarial proceedings and thereby duplicate costs. If anything, it can potentially save costs for a party who in the face of the Expert Panel Opinion, chooses not to retain its own expert but rather to seek to resolve the dispute or withdraw.

In response to the Government's reservation with the ACIP recommendations, the Expert Panel Opinion does not offend s 71 of the Constitution as it is not an exercise of 'judicial power'. It is an opinion sought by the Court within its power under the Rules.

Notwithstanding that ADR is already available to the parties, ADR conducted in an environment where the parties reiterate their polarised views, is uncertain and unhelpful. The Expert Panel Opinion introduces at an early stage and in a less expensive manner, a factor which is likely to encourage the parties to resolve the dispute at an earlier stage.

Patent litigation largely revolves around expert opinion. Generally, the costs of the experts and the lawyers engaging with them, is not an insignificant component of patent litigation. The introduction of the Court's Expert Panel Opinion early in the proceedings, militates against the parties maintaining a polarised view on validity for a longer portion of the proceeding timeline than can be justified.

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