

Australian Patent Enforcement—A Proposal For An Expert Panel Opinion Part 2

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Summary of Part 1

The ability of patentees, particularly small to medium enterprises (SMEs) to commence and sustain a patent enforcement action, has been a problematic the Australian government has wrestled with for some years. 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

As a consequence, in 2006 the government requested ACIP to investigate post grant patent enforcement strategies to benefit the Australian economy by assisting patentees to effectively enforce their patent rights.³

The ACIP review identified a number of problems with the current model. These included:

- The high cost of specialised legal representatives and experts retained in the enforcement litigation;
- The ability of a party to use mechanisms in the proceeding which can delay matters and exacerbate those legal and expert costs;
- Financial disparity between the parties;
- Delay in finalisation raising issues of sustainability of the proceeding;
- The uncertainty of the outcome arising from the nature of patent rights, patent litigation generally, delay and a low level of knowledge of what patent enforcement entails.

1. The author acknowledges the comments and contributions provided by the Honourable Patrick Keane, Chief Justice of the Federal Court of Australia; Professor Anne Fitzgerald of the QUT Law Faculty; Bonghoon Lee and Hyunson Lee senior examiners of the Korean Intellectual Property Office (KIPO); Byungdo Cho, Daejin Lee and Inseop Lee, KIPO judges of the Intellectual Property Tribunal and Mr. Paul Thompson of the firm Fisher Adams and Kelly which hosted the discussions with the KIPO officers and judges.

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”).

3. The Issues Paper, above n2 at p 1.

ACIP relevantly recommended the establishment of a Patent Tribunal, comprised of 3 professional people of legal and technical skill. Mechanisms were recommended to direct patent disputes to the Tribunal. For example, these included recommending to the Court to penalise a patent owner in terms of costs who chose to bypass the Tribunal and proceed to Court for relief, even if such party succeeded before the Court.

ACIP’s recommendation as to the establishment of a Patent Tribunal was rejected by the government. Factors militating against acceptance of the recommendation included:

- 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;
- A constitutional issue arising from the fact that the Tribunal as constituted in the recommendation, could not make judicial decisions as it was not a court (s 71 of the Constitution);
- The Tribunal represented another layer in the appeal process;
- The cost of the Tribunal outweighed any perceived benefits.

Since the Government’s response,⁴ there have been several important developments. The government implemented legislation directing parties to undertake steps in most cases to resolve a dispute before the proceeding is commenced.⁵ In addition,

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

5. Civil Disputes Resolution Act 2011 (Cth) was enacted on 1 August 2011.

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new streamlined Federal Court Rules have been implemented with a view to reducing delays and identify the issues at an early stage.⁶

Finally legislation has been introduced which in part has focussed on strengthening patents through amendments which included extending the grounds for rejection which examiners may raise in patent examination and extending the patent area for common general knowledge in relation to the lack of inventive step ground.⁷

In the author's opinion, the stage is set for a patent enforcement strategy which utilises the existing structures, has the potential to reduce legal and expert costs and inherently encourages the parties to resolve the dispute at a relatively early stage of the proceeding.

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. 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.

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.⁸ 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.¹⁰

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.

6. The *Federal Court Rules 2011* commenced 1 August 2011.

7. The *Intellectual Property Amendments (Raising the Bar) Act 2012*.

8. Rule 23.01(1)(b) FCR 2011.

9. Rule 23.01(2) FCR 2011.

10. Rule 429M of the UCPR (Qld).

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.

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.¹¹

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 approach-

ing 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 the threshold requirement of s 56 of the Evidence Act.¹²

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:
 - o Are qualified to give expert evidence on the issue; and
 - o 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.¹³

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

12. 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.

13. UCPR (Qld) Rule 429].

11. *Fina Research* at [4].

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 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.¹⁴ 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.¹⁵

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 *Rud-dock 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 610-613.¹⁶

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,¹⁷ lack of utility ground¹⁸ and the secret use ground.¹⁹

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:²⁰

- The ground of lack of entitlement is severely hamstrung by the introduction of an administrative regime under the *Raising the Bar Act*,²¹
- The grounds that the patent or an amendment to the patent were obtained through fraud, false suggestion or misrepresentation,²² should predominantly be matters of conduct which may raise discrete technical issues for the Expert Panel Opinion.
- The grounds under s 40²³ 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

14. Rule 34.46 of the FCR 2011.

15. Rule 34.46(4) of the FCR 2011.

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

17. *Patents Act* s 18(1)(a) and s 18(1A)(a)

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

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

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

21. 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:

(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.

22. *Patents Act* s 138(3)(d) and (e).

23. *Patents Act* s 138(3)(f).

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 Patents Act and ‘innovative step’ in s 7(4), will be now broadened by extending this knowledge from Australia to the world.²⁴

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;²⁵
- 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.²⁶ The Court however, could make the directions pursuant to its general power to make directions for the management, conduct and hearing of a proceeding.²⁷

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.

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

25. UCPR Rule 429M.

26. FCR 2011 rule 23.01; FCR 1979 Order 34 rule 2.

27. FCR 2011 Rule 5.04.