

### CHALLENGING AN AUSTRALIAN PATENT

Imagine: you are about to launch a new product and a routine freedom-to-operate search reveals a patent that stands in your way. If you proceed with the launch, you could find yourself in court, facing an injunction and being left with stock which you may need to destroy. If you abandon the product, you could forego huge potential profits. What do you do?



Ray Tettman

In Australia there are several options available, depending upon what stage of the examination/grant process the patent is at. If the patent is not yet granted, and is still pending before the Patent Office, the scope of the claims (which define the extent of the monopoly rights) has not yet been settled. In that case, your primary aim would be to reduce your level of risk by obtaining some certainty regarding the ultimate scope of monopoly rights likely to be granted.

There are various mechanisms under the Australian Patents Act which allow any person to influence, and hopefully restrict, the scope of the monopoly rights granted by the Patent Office. For example, if the patent application has not yet been accepted by a Patent Examiner, it is possible for any person to lodge at the Patent Office a 'Notice of matters affecting the validity' of the patent application, together with copies of relevant prior art documents which show that the claimed invention is not novel (*ie* not new) or not inventive. The Patent Examiner must then consider the documents as part of the examination process.

After the application has been accepted, there is also an opportunity to formally oppose the application before it proceeds to grant. In addition to asserting that the claimed invention is not novel or inventive, there is a range of other available grounds upon which the patent can be challenged, for example, that the applicant is not entitled to the grant of the patent, that the invention was in public use before the filing date of the patent application, or that the invention is not a patentable invention because it is not useful or because it had previously been secretly used by the patent applicant.

An advantage of the opposition procedure is that you, as the opponent, have the opportunity to present evidence regarding what is commonly known and present argument as to why the patent should not be granted. You also have the opportunity to reply to any evidence lodged by the patent applicant. This opportunity is not available in the earlier Notice of matters affecting the validity of the patent.

If the patent is already granted, the scope of the claims, and hence of the monopoly rights, would at least appear to have been settled. However, the validity of any patent is never completely certain. For example, the validity can be challenged before the Patent Office by lodging a request for re-examination of the patent, together with documents which show that the claimed invention is not novel or not inventive. Similar to the above mentioned Notice of matters affecting the validity, the re-examination procedure is restricted to a consideration of prior art documents (not prior use) and to the grounds of novelty and inventive step. Once the documents are lodged at the Patent Office, you would have no further involvement in the process and the patentee deals only with a Patent Examiner. Amendments could be made to the patent, in order to avoid complete invalidity, but it is possible that these may also be sufficient for you to avoid infringement.

It is also possible to seek revocation of a granted patent in the courts. The grounds available to challenge the patent are similar to the grounds available in the pre-grant opposition procedure, however a further ground is also available, namely that the patent (or an amendment) was obtained by fraud, false suggestion, or misrepresentation.

In many cases the most contentious ground, of opposition or revocation, is that of lack of inventive step. Assessing novelty is generally quite straightforward, since it requires (as in many jurisdictions) clear and unambiguous disclosure of the claimed invention in a single prior art document or prior use. Inventive step, on the other hand, is more difficult but is frequently the ground upon which substantive cases are won and lost.

The law of inventive step in Australia is widely considered to be more favourable to the applicant/patentee. In this regard, the High Court of Australia has recently reconfirmed that "a scintilla of inventiveness" is sufficient to sustain a patent, and the law currently presents a number of hurdles to any party seeking to invalidate a claim for lack of inventive step. In particular, it is necessary to establish the identity of the relevantly skilled person, to establish (by evidence) the common general knowledge that might be ascribed to this person, and also to establish (again by evidence) the relevance of any prior art documents or information relied upon in the analysis of inventiveness, from the perspective of the skilled person.

These hurdles seem to have become more onerous in recent times, particularly in pre-grant opposition proceedings, and have prompted some commentators to suggest that it may be preferable to skip the opposition procedure altogether, wait until the patent is granted and then seek revocation in the courts. Whilst the Patent Office is not bound to follow the rules of evidence, opposition procedures are becoming considerably more rigorous, and much more like court proceedings. Costs have increased accordingly and the gap in financial terms between opposition and revocation is reducing.

A final option in the scenario presented is of course to do nothing to proactively challenge the validity of the patent/application. Instead, proceed with the product launch and wait for a 'letter of demand' to arrive on your desk. It may never arrive. If infringement proceedings are commenced, you can then apply to the court, by way of counter-claim, for the revocation of the patent. If this option is adopted, however, start collecting your prior art evidence now. You may need it. Beware also that as a result of recent amendments to the Patents Act 1990, if your action for revocation is unsuccessful, punitive damages may be awarded by the Court.

**Ray Tettman, Principal**

We are delighted to announce that Watermark is the winner of the patent attorney & trade mark firm category in the BRW Client Choice Awards 2008. The awards recognise Australia's top professional service firms and winners are chosen based on research conducted by Beaton Consulting as part of its Annual Business and Professions Study. Winners and finalists are selected by clients of the firms in each category, based on the value proposition and quality of service provided. We are delighted to have achieved this recognition from our clients for the high quality service we endeavour to provide.

Further to our report in the last issue of this journal concerning possible changes to the Patent Regulations relating to the filing of divisional patent applications, we set out below more mooted challenges for patent applicants in crafting patent filing and prosecution strategies.

### Reduction in claim numbers

The doctrine of file wrapper estoppel which exists in some jurisdictions, including the commercially important United States of America, allows courts to take into consideration the patent applicant's admissions during the examination process when it determines patent claim scope. It has thus become common practice for patent drafters to include a large number of claims in a patent application to ensure that, wherever possible, claims are granted without any discussion as to their allowability during examination. The existence of multiple independent claims and a large number of dependent claims is thought to provide patentees with expanded options during litigation.

However, at a time when patent application numbers are steeply increasing, and suitably trained and experienced Examiners are a rare and expensive commodity, patent offices around the world have been directing rule changes to mitigate against the inexorable increase in application pendency periods which has been one result of this practice.

There are many valid public policy reasons for limiting the number of dependent claims. Ideally, dependent claims should cover advantageous and arguably non-obvious subject matter added to an independent claim. Equally, third parties should not be overburdened in their determination of the scope of a granted patent. Such measures also benefit SMEs in that searching monopoly rights is made easier, and freedom to operate assessments and licensing are facilitated.

A balance between public and private interests has hitherto existed in Australia in that patent applicants have to date been permitted to file applications containing any number of independent and dependent claims with the aim of providing multi-faceted protection. However, as recently as 2006, the Australian Patent Office (IPAU) introduced excess claim fees **at acceptance** in the amount of A\$100.00 per claim in excess of 20. These fees can be punitive.

In practice, the application of fees to excess claims has resulted in workarounds including the filing of divisional applications (the cost of which can be less than that of the excess claims), or alternately, elaborate pre- and post-grant amendment procedures to delete and reinsert acceptable but excess dependent claims. IPAU has expressed disappointment at these activities which they regard as not within the spirit of professional practice. These workarounds do not alleviate the issue IPAU sought to address in introducing excess claim fees and, in fact, may exacerbate the problem. If the US courts ultimately accept the proposed USPTO rule changes relating to excess claims, IPAU (as they often do) may adopt similar provisions aimed at reducing the number of claims in an Australian application.

### Limiting response times during examination

Australia's patent prosecution procedure is unique in allowing a period of 21 months from the date of issuance of a first official action within which to achieve allowance of an application. There is no time limit by which a response must be submitted to an official action. IPAU is proposing to reduce this period to 12 months from issuance of an official action.

Many practitioners can see little real disadvantage in reducing the acceptance time. For most cases, the current state of play

would not be altered. According to an evaluation by IPAU, only very few applications are still pending and not finally dealt with (*ie* accepted) at the expiry of 12 months from the first examination report.

One of the arguments raised by IPAU in support of this measure may be a little disingenuous. IPAU suggests that the proposed measure will benefit applicants and third parties alike in that patent grant will be expedited and third parties will not be subjected to long periods of uncertainty about the ultimate prospect of an application resulting in exclusionary rights.

This is only half the story. Under the Australian Patent Regulations, examination can be requested voluntarily by the applicant at any time within a five year deferment period commencing at the date of filing of the application. Thus, in theory, an applicant has the capacity to both expedite and postpone examination. However, the Commissioner of Patents also has the right to issue a direction to request examination at any time within this five year period, as a result of which, if examination is then not requested within a six month time limit, the application lapses. In practice, it is relatively rare that an applicant does other than simply respond to a direction to request examination.

The same aim in reducing application pendency times could in fact be achieved by either abandoning the system of directing examination altogether and adopting a US style approach whereby the examination procedure is commenced upon filing of an application (subject to the length of the queue), or by a policy decision by IPAU requiring the Commissioner to issue examination directions within three months of the filing of an application. Neither of these proposals is on the table. Of course, either of these options would require that IPAU examines all patent applications within an acceptably short time frame in order to meet its substantially reduced pendency goals. However the Commissioner's powers to issue examination directions were intended to allow him/her to adapt examination time frames to available resources within IPAU. It is thus unlikely that IPAU would cede its discretionary powers, particularly in light of tight government budgets and the limited number of suitable Patent Examiner recruits, as public criticism may then follow if pendency periods are not reduced.

Current pendency time frames in respect of patent applications (whether unexamined or under examination) are likely to remain the norm, and may even increase, despite any reduction of the acceptance time limit to 12 months.

Watermark will continue to keep readers apprised of changes to the Australian patent examination regime which may have an impact on patent filing and prosecution strategies in this jurisdiction.

**Christian Schieber and Karen Sinclair, Principals**

## ESTOPPEL THE PRESS! ICI V DU PONT – THE CONTINUING STORY OF REFRIGERANTS

A recent decision in the Federal Court of Australia considered whether a finding of lack of novelty in a claim flowed through to dependent claims in subsequent divisional applications.

Matters of issue estoppel were recently considered by the Full Federal Court of Australia in *E I Du Pont de Nemours & Co (Du Pont) v Imperial Chemical Industries PLC (ICI)*<sup>1</sup>. The case examined the question of whether a finding that a claim in a patent application lacked novelty must necessarily lead to a finding that a specific dependent claim in a subsequent divisional application also lacked novelty. The claim related to refrigeration compositions which do not contain ozone-depleting CFC's.

ICI filed two patent applications, 685005 ('005) and 654176 ('176), which were accepted after examination and opposed by Du Pont. The oppositions were dismissed, whereupon Du Pont appealed<sup>2</sup>. The resulting judgment concluded that a prior patent, the 'Lubrizol patent', anticipated the '005 patent. ICI did not seek to amend the claims of the '005 patent.

Instead, ICI filed a divisional application, having the same claims as the parent and which were rejected in examination. The reason given was that the prior court decision compelled the Examiner to do so. ICI then sought to amend the divisional claims, essentially deleting claim 1 (which claimed a composition comprising a selection from a group of heat transfer fluids and a group of lubricants) and making claim 4 (limited to **specific** heat transfer fluids, but which were encompassed amongst the group of heat transfer fluids of claim 1) the main independent claim. The amendments were refused, again on the basis of the same court decision.

<sup>1</sup> *E I Du Pont de Nemours & Co v Imperial Chemical Industries PLC* (2007) FCAFC 163

<sup>2</sup> *E I Du Pont De Nemours & Co v Imperial Chemical Industries PLC* (2002) 54 IPR 304

This refusal was contested<sup>3</sup>, where it was held that the prior decision did not automate refusal of either the application for grant of the divisional, nor its amendment. The divisional was amended, accepted and again opposed by Du Pont, contending issue estoppels between Du Pont and ICI, which arose from the first judgment. This matter has now been considered before a primary judge<sup>4</sup> and then before the Full Court.

With this background in mind, it is now convenient to take a look at what exactly is meant by 'issue estoppel'. Essentially, it is a bar to re-opening an argument over issues that are the subject of a prior court decision. It is now accepted that three requirements must be fulfilled for 'issue estoppel' to arise<sup>5</sup>:

1. the judgment being relied upon as creating estoppel must be (i) from a court of competent jurisdiction, (ii) final and conclusive, and (iii) on the merits;
2. the parties must be the same; and
3. the issue in the later action to which estoppel is being raised, **must be the same as that decided in the earlier action**.

The point of contention in the present case was whether the initial determination that the '005 patent was not novel effectively also meant that the divisional application lacked novelty. Du Pont had to establish that it was a fundamental aspect of the earlier judgment that claim 4, considered on its own merits and separately from claim 1, was also not novel.

It was the contention of Du Pont that since the main claim of the divisional application was effectively a selection based on, and contained within, the invalid claim 1 of the parent, it must be considered to be identical to that invalid claim and therefore must be invalid for the same reasons.

Importantly however, in the original judgment, no **separate** consideration was given to any dependent claim, including claim 4, or to the fact that it referred to a specific combination. Similarly, no consideration was given to whether any claim could be saved by amendment, since no application to amend the '005 patent was filed. Instead, ICI took the route of filing a divisional application.

In determining the novelty of the amended divisional, it was properly the subject matter of claim 4, that is, the **specific** combination of the refrigerant, that was under consideration. However, as no dependent claim was separately considered in the

original judgment, it could not be held that the issue being considered was the same. Hence, there was no issue estoppel.

On this basis, it seems that Du Pont may have had a perfectly reasonable argument that, since the scope of claim 4 in the original application was identical to a selection available in the invalid claim 1, an attack on the divisional application traversed the same issue as was dealt with in the earlier judgment. However, this decision shows that issue estoppel applies to arguments that are not merely theoretically equivalent, but to issues that are effectively identical in all respects.

This case and the judicial consideration given to the matters can also serve as a reminder of the difficulties and ambiguities that can be encountered in the assessment of the scope of patent claims, especially selection claims in chemical patents, wherein a prior publication discloses a broad **class** of compounds and the patent in question claims one or more specific **members** of that broad class.

If different claims define different possible scopes, then a proper novelty assessment of each individual claim is warranted. Had the original judgment separately considered the subject matter of claim 4 or indeed of any other dependent claims, it could be said that there was identity in the issues being considered and it is likely that issue estoppel would have been established.

**Carol Kane**  
Patent & Trade Mark Attorney

### WATERMARK PROFESSIONAL STAFF UPDATE

Watermark congratulates its newest attorneys on qualifying in 2007 as Patent and Trade Mark Attorneys in Australia and New Zealand.

Their technical expertise and industry experience further enrich the broad range of capabilities offered by Watermark to our clients. Congratulations to all. See the Our People section on our website for further details - [www.watermark.com.au](http://www.watermark.com.au)

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<sup>3</sup> *Imperial Chemical Industries Pty Ltd v Commissioner of Patents* (2004) FCA 1658

<sup>4</sup> *E I Du Pont De Nemours & Co v Imperial Chemical Industries PLC* (2006) 70 IPR 274

<sup>5</sup> *DSV Silo- und Verwaltungsgesellschaft mbH v Owners of The Sennar* (1985) 2 All ER 104

This article provides a review of the patentability of information technology patents in Australia, United States of America and Europe, and focuses on recent decisions regarding the patenting of software and business methods.

Patents directed to software have become increasingly popular with patentees and increasingly unpopular with patent offices and the courts. This is because much software is aimed at automating previously manual processes. There is no universally accepted definition of a 'software' patent. One definition suggested by the Foundation for a Free Information Infrastructure is that a software patent is a "patent on any performance of a computer realised by means of a computer program"<sup>1</sup>. Supporters of software patents argue that software inventions are useful to modern life and therefore deserve the same incentive provided for inventions in other useful arts.

The patenting of business methods remains even more controversial. Patents are sought for business methods that relate to aspects of the operation of a business. There is sustained debate as to whether and to what extent such patents should at all be granted.

## Australia

There is no general prohibition on the patentability of software in Australia. Australian patent law enables a diverse range of software to be patented by applying the tests used to determine the patentability of any other type of invention. Software may also be protected under copyright law in Australia.

The same cannot be said for business method patents. In a recent decision, *Grant v Commissioner of Patents*<sup>2</sup>, the Full Court of the Federal Court of Australia held that a business method will only be patentable if it has a physical aspect, being a concrete, tangible, physical, or observable effect or phenomenon. Accordingly, 'pure' business methods, being those that do not have a physical aspect, are not patentable in Australia.

The above principle has been reinforced in a recent decision issued by the Australian Patent Office. In revoking an innovation patent directed to a reverse mortgage method for releasing equity in real property<sup>3</sup>, the Deputy Commissioner expressed the opinion that the concept of an "artificially created state of affairs" (discussed by the High Court in the seminal NRDC<sup>4</sup> case), required "the application of science or technology in some material manner". Ironically, the restatement of the NRDC test in this way introduces the very kind of rigidity which the High Court warned against in NRDC<sup>5</sup>.

## Europe and the UK

Patent applicants in Europe contend with a constrained policy in which the scope of patentable subject matter has not been expanded under administrative and judicial decision-making for some time. In essence, under the European Patent Convention (EPC), "schemes, rules and methods for (...) doing business" are not regarded as inventions and are not patentable. However if a new method solves a technical rather than a purely administrative problem, it may be patentable.

The European Commission's attempts to validate and promote software patents have been opposed by many companies and professionals, and especially the open source community. It is also clear that Europe opposes the concept of broad, non-technical patents on business methods now available in the United States and Australia.

Two recent decisions show disparate applications of the same law in relation to the patentability of business methods. In a recent decision of the UK Court of Appeal, *Macrossan & Aerotel Ltd*<sup>6</sup>, the Court set out a four step approach for assessing whether an invention should be excluded from patentability:

- properly construe the claim;
- identify the actual contribution;
- ask whether it falls solely within the excluded subject matter; and
- check whether the actual or alleged contribution is technical in nature.

In contrast, a recent decision of the European Patent Office, *Duns Licensing Associates*<sup>7</sup>, concerning the patentability of business methods, has strongly criticised this decision as being "irreconcilable with the EPC". The approach has also been dismissed by the EPO's Technical Boards of Appeal as being inconsistent with a good-faith interpretation of the EPC. The Technical Boards established that there are four requirements for patentability:

- an invention,
- novelty,
- inventive step, and
- industrial applicability.

These are separate and independent criteria of patentability. In assessing whether there is an invention, there must be some technical character, *ie* a feature which does not lie solely within an excluded field (for example, that of business methods). A mix of technical and non-technical features is permitted.

Pursuant to these decisions, many patent practitioners agree that obtaining a patent for a method of doing business, or for software, is currently easier at the EPO than before the UK Intellectual Property Office.

## United States

While there is no general exclusion to the patentability of methods of doing business or software under US patent law, issues relating to the overpatenting of these types of inventions exist.

Patent applications directed to information processes are examined using the same standards as for any other invention. Until recently the USPTO enforced a requirement that business method inventions must apply, involve, use or advance the 'technological arts' in order to be patentable.

In October 2005 the USPTO's own administrative judges overturned this position in a majority

decision of the Appeals Board in *Ex Parte Lundgren*<sup>8</sup>. The Board ruled that the 'technological arts' requirement could not be sustained, as no such requirement existed in law. In light of this decision, the USPTO has issued interim guidelines for Patent Examiners to determine if a claimed invention meets the statutory requirements of being a process, manufacture, composition of matter or machine (35 USC 101)<sup>9</sup>.

The Supreme Court decision in *eBay v. MercExchange*<sup>10</sup> has also influenced the assessment of business method patents. MercExchange sued eBay and Half.com for wilful infringement of three business method patents. Two of the three infringement claims went to trial, and a jury found that eBay and Half.com had wilfully infringed two of the patents. The Court awarded damages but denied MercExchange's motion for a permanent injunction, stating that, in light of the growing concern about the issuance of business-method patents, issuing a permanent injunction would go against the public interest. The Court of Appeals for the Federal Circuit reversed, holding that, absent exceptional circumstances, District Courts should always issue permanent injunctions after finding that a patent has been infringed.

The Supreme Court had an opportunity in this case to resolve some issues that have been stumbling blocks for patent law since the birth of the Internet. Unfortunately, the Court's decision not only failed to resolve the issues, it created more confusion. The district courts have been left wondering just what the state of the law is after eBay.

## Conclusion

The number of patent applications filed for business method and software patents, particularly in the US and Australia, has continued to grow in part because of the perception that such patents are more readily obtainable in those jurisdictions than elsewhere. The filing of software patent applications is often an attempt to obtain patents on relatively small incremental improvements in software. However, such inventions must still overcome the threshold for patentable inventions in the respective jurisdiction.

Business method and software technology is expected to continue to be contentious subject matter for the purposes of obtaining a patent in most major jurisdictions, and applicants are recommended to seek professional advice as to the viability of obtaining protection. Particular consideration should be given to filing strategies and the customising of claims for particular jurisdictions.

## Ashley Dickson, Patent Engineer

<sup>1</sup> "The Gauss Project". FFII. Retrieved on 30/05/2007, <http://www.ffii.se/erik/EPIP/img8.html>

<sup>2</sup> [2006] FCAFC 120, [47]

<sup>3</sup> Re Peter Szabo and Associates Pty Ltd (2006) 66 IPR 370

<sup>4</sup> National Research Development Corporation v Commissioner of Patents (1959) 102 CLR 252

<sup>5</sup> National Research Development Corporation v Commissioner of Patents (1959) 102 CLR 252

<sup>6</sup> [2006] EWCA Civ 1371

<sup>7</sup> T 0154/04, Duns Licensing Associates

<sup>8</sup> Appeal No. 2003-2088 (BPAI 2005)

<sup>9</sup> [http://www.uspto.gov/web/offices/pac/dapp/opla/preognotice/guidelines101\\_20051026.pdf](http://www.uspto.gov/web/offices/pac/dapp/opla/preognotice/guidelines101_20051026.pdf)

<sup>10</sup> eBay Inc. et al. v. MercExchange, LLC. (No. 05-130) 401 F. 3d 1323