

### VALUE STATEMENTS AS KEY ENABLERS OF SUCCESSFUL PATENT PORTFOLIO MANAGEMENT

Intellectual property (IP) valuation, particularly in respect of patents, can appear a daunting undertaking, especially for entities with minimal resources. Many companies have never formally valued their IP and, as a result, have little understanding of the strengths and weaknesses of their patent portfolios.

Whilst sophisticated processes are available to assist in portfolio valuation, many of these may be beyond the limited resources of smaller entities. However, it is possible, with minimal financial outlay, to employ rational methods that can better position a patent portfolio within an overall strategic business plan.

The use of value statements can be a simple yet effective first step in patent portfolio valuation. This approach can create synergies between technical, legal and business functions and underpin a company's operating goals. The approach is also highly relevant to start up companies embarking on their first venture into the world of patents.

#### What is a patent value statement?

A patent value statement is a document containing the necessary detail to support business use of the patent and to enable a company to make informed decisions around the fate of the patent. It is not a statement of technical merit, although it may well have a strong technical content. Many technical innovations, whilst perhaps of scientific value in their own right, may have little real commercial value. The amount of detail required in a value statement should be sufficient to convey the clear reason(s), depending on where the patent is in its lifetime, for pursuing filing, continued prosecution or maintenance. Cornerstone patents that support key technologies may need only a brief synopsis. However, most patents will require significantly more.

A simple first step in assembling a value statement is to document the key areas in which the patent finds or may find business use. Such areas could be for example:

- protecting margins of products or services
- blocking competitors from present or future desirable markets
- bargaining chips in patent assertion events
- enabling possible licensing agreements
- enabling joint development and venture agreements
- enhancing value perception to potential investors.

Value statements are based on the simple premise that it should be possible to clearly articulate the reasons for filing, prosecuting and maintaining a patent; otherwise critical questions should be asked about why a particular innovation is being considered for patent filing or ongoing protection.

#### Why should you have them?

A patent value statement articulates the reasons that underpin the use of the patent by the business. All parties involved are thereby reminded of why the patent was filed in the first place and why it is being maintained – very useful in business where personnel change jobs frequently. For example, the inventor and/or patent attorney that were involved in filing and prosecuting a patent five years ago may have moved on to new positions; they may even have left the company. Documented value statements can bridge this knowledge gap.

Additionally, business focus and/or technology relevance may shift. What was viewed as groundbreaking technology five years ago may now be superseded, and patents of dubious value may be maintained without critical analysis, thus incurring additional costs to a business. Well developed value statements can assist in strategic pruning of a portfolio and management of costs.

Value statements can also assist start up companies to articulate the worth of their innovations and patents to potential investors, who may not be technically or legally savvy. A well written value statement can inspire confidence in investors that the company understands its IP and can position that IP within an overall business strategy.

#### When should they be written?

Ideally, a value statement should be written when first contemplating filing. It can greatly assist in defining the business and commercial drivers that ought to underpin any patent filing. Some patents are filed speculatively and it can be reasonably argued that, in the early stages of prosecution, a solid business use may not yet be defined. In these cases, value statements can be delayed until significant financial resources must be committed to the patent.

If patent protection is being sought in different countries, separate value statements that address local issues, perhaps in respect of competitor activity or enforcement, should be developed for each jurisdiction.

#### When should they be reviewed?

Value statements should be reviewed at every major spend decision during filing and prosecution until the patent is granted. Once a patent is in force, value statements should be reviewed annually to critically assess continued relevance. If key business or commercial events occur or a key competitor event occurs, then the value statement should be reviewed.

A patent value statement is not a static document that is written when the patent is filed and then locked away in a drawer but, instead, it should be viewed as a dynamic document that can and should change with respect to both internal and external pressures.

#### Who should write them?

Value statements should be written, assessed and approved by a team ideally comprising a technical leader, a business leader and a patent attorney. None of these functions alone has sufficient expertise or the breadth of knowledge to fully assess value. Value statements developed in this way can become co-owned by the team. Such co-ownership can assist in effectively addressing tensions that can arise if questions around the value of a patent, that may have consumed significant resource, are raised.

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Patent abandonment decisions are often difficult for individuals to make in isolation, sometimes resulting in overly conservative decisions. An informed team decision can effectively address this issue and result in substantial cost savings in the long term.

### Example scenario

The R&D department of a small company, endeavouring to break into the market for plastic pipes for natural gas transport, has developed a novel polymer composition. From the results of small scale tests, the innovation appears to offer significant improvement in respect of key physical properties when compared to those of competitive materials. A patent has been filed and is currently in the international phase but the application has not yet been published. The company is also seeking significant investment in order to further develop and commercialise the technology.

After consultation, the team has developed the following patent value statement with a view to justifying further expense.

### Patent value statement

*In the interests of space this is limited to several key points. Ideally, it should be fleshed out with hard technical and financial data.*

Historically, natural gas has been transported by steel or cast iron pipes. These materials have a finite lifetime due to corrosion problems. Over the long term, the continued maintenance of these pipes is more expensive than the replacement cost. Further, steel pipes are expensive to manufacture. There is a significant global opportunity available, both in the replacement of existing steel pipes, and in the construction of new infrastructure utilising plastic pipes.

The results of laboratory tests to date indicate that the new composition outperforms competitive materials in respect of physical properties. Potentially, these enhanced physical properties will allow a significant reduction in the wall thickness of the pipes, resulting in substantial raw material cost savings. However, significant scale-up and regulatory hurdles remain to be addressed.

Patent searches conducted to date have indicated that the composition is likely novel and broad composition claims have been sought. The technical experts are confident that it would be difficult to emulate the performance of the composition by other means, and believe that they have achieved a step change in performance in comparison to existing technologies.

### Business use

Business use of a patent issued in respect of the technology appears broad and includes the following key areas:

- competitive advantage in plastic pipe formulations – block competitors from entering market for thinner wall plastic pipes
- license technology to large plastic manufacturer
- joint development with large plastic manufacturer
- enhance investment attractiveness.

### Recommendations

- Depending on resources, enter the national phase widely.
- Rapidly understand if technology works on scale-up.

### Key risks

The following key risks have been identified and will be the subject of ongoing patent value assessment. One or more of these risks may significantly alter future perception of the value of this patent:

- proof of technology at large scale
- ability to meet regulatory requirements
- ongoing competitor activities.

### Dr Grant Jacobsen

## COMPETING WITH PARALLEL IMPORTS FROM CHINA? ENFORCE YOUR RIGHTS AT THE SOURCE.

Users of the IP rights system in Australia may be aware that 'counterfeit' goods can be seized by Australian Customs Officers before the goods make it into the market, provided the IP right holder notifies the Australian Customs and Border Protection Service of its rights and the likely counterfeit goods. This enables Customs Officers to hold goods that may be counterfeit (for a short period) and to notify the IP right holder of the seizure. Anecdotal evidence from Customs Officers suggests that identifying potentially infringing goods is generally straightforward, but there is a view that legitimate IP right holders are not using the Customs system as effectively as they might, by taking the necessary steps of lodging a notice listing the trade marks, package or copyright with Customs and taking prompt and decisive action against the infringing importer once the goods are seized.

But how much more effective would enforcement be if the IP right holder could have the infringing goods seized at their source, regardless of their eventual destination?

Consider counterfeit goods originating in China for export to Australia – there are numerous paths that can be taken for enforcement of IP rights, although having a relevant registered trade mark in China is a prerequisite for many of these paths. Relying on a Chinese trade mark registration, the IP right holder can initiate enforcement action in China. At the source of the goods (ie at the factory), Chinese Government agencies can use either administrative or police enforcement and seizure procedures to seize counterfeit goods, while at the point of export the IP right holder can have goods seized by Customs or, if the counterfeit is of low quality, by the Chinese Quality Enforcement Agency. Enforcement action at the factory may take some investigative work before a case can be made to the relevant administrative bodies or police but, at the point of export, providing some simple details can make all the difference. Of course, the IP right holder needs to list its legitimate business partners, as Customs might otherwise also seize legitimate goods.

While there exists some scepticism about foreign IP right holders' effective ability to enforce IP rights in China, nevertheless in 2008 over 95% of patent enforcement cases in Chinese courts were brought by Chinese companies, not foreign companies. So clearly Chinese businesses believe not only that enforcement is possible, but that effective enforcement of IP rights is important to the Chinese economy. Obtaining registration of your key trade marks in China and listing your registered Chinese trade marks with Chinese Customs is important and may have a significant impact on the export of counterfeit product from the major (or minor) Chinese ports. It should be understood, however, that the IP right holder would have just three days to respond if goods are seized by Chinese Customs – so it is critical to have a formulated and well-understood action plan on what to do when goods are seized.

China, like many countries in Europe and Asia, operates a 'first to file' trade mark system where the person entitled to own the trade mark is the first person to register the trade mark, rather than the 'first to use' as operates in Australia. Simply having used a trade mark in China does not provide any priority of right over a party that adopts and registers the trade mark later than the first user. If you manufacture, package or label product in China, it is important to obtain a Chinese trade mark registration. Not only can you use the right for enforcement and with Customs, you can avoid the situation where another party registers your trade mark and uses it against you!

For more information about registering trade marks in China, or Australian and Chinese Customs seizures, please contact Watermark.

### Belinda Wadson

## A STATE OF GRACE? POTENTIAL PITFALLS OF THE AUSTRALIAN 'GRACE PERIOD'

In 2002, the Australian Patents Regulations were amended to introduce a general one year 'grace period', which enables an applicant, in principle, to file a valid patent application up to 12 months after a public disclosure of the invention has occurred. More than seven years on, a recent case provides a timely reminder of the limitations of the Australian grace period.

The 12 month grace period was introduced on 1 April 2002 as part of the Australian Government's *Backing Australia's Ability* innovation plan. The grace period protects patents from invalidation by a publication of the invention made by, or with the consent of, the patent applicant during the 12 month period prior to the filing date of the application. The rationale was to make the Australian patent system more 'user friendly', by providing a degree of protection against the adverse impact of inadvertent or naive disclosure of an invention prior to the filing of a patent application. The grace period was implemented by an amendment to the *Patents Regulations 1991*, extending an existing provision allowing for certain prior disclosures to be disregarded in limited circumstances, to encompass all disclosures by the applicant during the relevant 12 month period.

It is important to understand that the Australian grace period is different in its operation and underlying policy from the corresponding 12 month period under US patent law. In the US, the first inventor is entitled to be granted a patent for a novel and non-obvious invention, so long as they proceed to file an application without undue delay. If the invention is subsequently disclosed or commercialised, either by the inventor or another party, such acts trigger the commencement of a 12 month period during which a patent application must be filed. So long as the inventor is able to establish an earlier date of invention, the publication and/or use of the invention during this grace period will not invalidate the patent.

This is not so in Australia. The grace period provides no protection in the event that the subject matter of an invention is independently developed and disclosed by another party. Furthermore, the grace period protects an applicant only against public disclosure, and not against a commercial use that does not disclose the invention, such as the application of a new process within a secure facility, or the sale of a product subject to nondisclosure restrictions.

Additionally, use of the grace period in Australia is subject to potential prior user rights arising. If the invention is disclosed, and another party begins to use the disclosed subject matter in a commercial manner before a patent application is filed, that party is then free to continue that use due to an intervening rights provision in the Australian Patents Act.

Finally, the grace period applies only to the filing date of a **complete** patent application; the benefit is not available in relation to a provisional application date.

In consideration of all of these factors, a review of the Australian grace period conducted by IP Australia in 2005<sup>1</sup> concluded that the grace period was performing its intended function, and had been used successfully in cases of inadvertent disclosure of inventions. No changes or extension to the scope and effect of the grace period were considered necessary.

The operation and limitations of the Australian grace period have been explored in a recent court battle between Mont Adventure Equipment Pty Ltd ('Mont') and Phoenix Leisure Group Pty Ltd ('Phoenix'). Mont had filed an application on 13 May 2005 for a standard patent relating to a travel pack. Corresponding products had been on sale since October 2004, and thus Mont relied upon the grace period. On 22 November 2006, Mont filed a divisional application for an innovation patent, based upon the still-pending standard application. The purpose of filing the divisional innovation patent application was to obtain rapidly an enforceable right for use against Phoenix, which Mont believed to be selling infringing products. This is a common and useful enforcement strategy, in view of the comparative invulnerability of these second tier patents to an obviousness-type attack.

In initial proceedings before the Federal Court<sup>2</sup>, Phoenix argued that Mont was not entitled to rely upon the grace period in relation to the sales in 2004, because the relevant 'application date' was the date of filing the divisional application, *ie* 22 November 2006. On the basis of a literal reading of the relevant provisions of the Patents Act and Regulations, the Court found in favour of Phoenix on this point, which would have resulted in the innovation patent being invalid due to the prior sales. Mont appealed to the Full Federal Court. In a unanimous decision<sup>3</sup>, the Court found in favour of Mont, finding the relevant 'application date' to be that of the parent application, *ie* 13 May 2005.

In particular, the Court determined that the interpretation of the grace period provisions for which Phoenix argued was contrary to the clear intention of the legislation, which otherwise treats divisional applications as being entitled to the full benefit of the original application date.

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) requested, and was granted, leave to intervene in the hearing to make submissions in support of the contentions advanced by Mont. This is the first time that IPTA has taken on such a role as *amicus curiae*, and it would appear that the submissions on behalf of the profession may have been influential in the decision.

The Australian grace period for patents has a number of significant intentional limitations, and its introduction has resulted in unintended consequences – at least for Mont, which was forced to an appeal in order to defend the validity of its divisional patent. While it continues to provide protection in cases of unintentional prior disclosure, any deliberate use of the grace period as a strategic tool is most strongly discouraged.

**Dr Mark Summerfield**

<sup>1</sup> IP Australia, Review of Patent Grace Period, August 2005, available from <[http://www.ipaustralia.gov.au/pdfs/patents/specific/Review of the Patent Grace Period.pdf](http://www.ipaustralia.gov.au/pdfs/patents/specific/Review%20of%20the%20Patent%20Grace%20Period.pdf)>

<sup>2</sup> Mont Adventure Equipment Pty Limited v Phoenix Leisure Group Pty Limited [2008] FCA 1476

<sup>3</sup> Mont Adventure Equipment Pty Ltd v Phoenix Leisure Group Pty Ltd [2009] FCAFC 84

## GREEN INCENTIVES IN IP

In today's climate, if you'll excuse the pun, many companies' green credentials are an important part of their visibility to customers or clients. It is more than just being seen to be green; a company must act to demonstrate its green credentials.

In this respect, governments and their departments are no different from companies; they must also demonstrate that they are contributing to the improvement of the environment.

How does a government body such as an Intellectual Property Office (IPO) do this?

The answer that many of the world's IPOs have come up with is to provide an advantage for companies which are applying for patents which can be considered 'green'. The advantage, as provided for by the United States Patent and Trademark Office (USPTO), the UK Intellectual Property Office (UKIPO), the Chinese Patent Office and IP Australia, is to offer expedited examination for 'green' patents.

The USPTO has this specifically codified in its Manual of Patent Practice, such that any invention which '*will materially enhance the quality of the environment or contribute to the development or conservation of energy resources*' is entitled to be made 'special' and receive expedited processing.

The British Minister for Intellectual Property, David Lammy MP, recently suggested that 'green' patents should be granted within nine months of application at the UKIPO. Interestingly, this announcement from the UK was made during a UK/China Economic and Financial Dialogue and confirmed that China was also adopting the proposal to 'fast track' green patent applications.

In addition, the European Patent Office (EPO) has recently announced a joint project with the United Nations Environment Programme and the International Centre for Trade and Sustainable Development to examine the role of patents in the 'development and transfer of environmentally sound technologies'. Alison Brimelow, EPO president, said: '*The IP system is essential for the development and effective dissemination of the new technologies that will be needed to address climate change. We need to ensure that the IP system promotes, rather than hampers, the transfer of environmentally friendly technology*'.

IP Australia has recently officially announced a similar scheme, bringing Australia in line with the major Intellectual Property Offices around the world. No amendment to the Patents Act 1990 has been required as it is considered in 'the public interest', as required by Regulation 3.17(2)(b) of the Patent Regulations 1991, to expedite 'green' patent applications and no additional official fee is levied. Importantly, IP Australia expects that examination of 'green' patent applications expedited in this manner may be performed in 'four to eight' weeks, down from over a year.

If you have an invention which may well have a 'green' focus, the most obvious question is likely to be 'how does expedited examination of my patent application help me'? In most cases, the answer is that a fast patent grant will provide greater confidence in the technology and help to attract investment and dissemination. The grant of a patent plays a significant role in alleviating the perceived risk of investment or purchase of a technology by investors or customers.

Another potential barrier for an up-and-coming 'green' idea is securing early-stage funding to enable protection of valuable IP and to commercialise the invention. The Australian Government is trying to help on that front too. Indeed, the following Federal 'green'-related grants or funds have been or currently are available:

- Green Car Innovation Fund (GCIF)
- Green Building Fund
- Renewable Energy Development Initiative
- Climate Ready Program
- Low Emissions Technology Demonstration Fund
- Re-tooling for Climate Change
- Renewable Energy Equity Fund (REEF)
- Clean Energy Initiative
- Wind Energy Forecasting Capability Initiative
- Advanced Electricity Storage Technologies Program.

There are also numerous grants or funds at state level, such as the Energy Technology Innovation Strategy (ETIS) available in Victoria, or the Queensland Sustainable Energy Innovation Fund (QSEIF).

The expedited examination of a patent can potentially be leveraged to obtain access to funds and grants, such as some of those mentioned above, and to access traditional venture capital investment. Further, from the expedited examination in one jurisdiction it might be possible to obtain an official opinion of patentability of your invention prior to the large costs associated with protecting the invention in many other countries.

The key message is, if your invention has a genuine 'green' aspect, it may be eligible for expedited examination and may be granted in a shorter period, providing benefit to your company and, ultimately, the environment.

**Ian Lindsay**