

### SECONDARY EVIDENCE OF INVENTIVE STEP – MOVING BEYOND THE PERSON SKILLED IN THE ART. HOW IS INVENTIVE STEP TYPICALLY ASSESSED?



Richard Baddeley

The requirement for inventive step is a form of patent quality control. A patentable invention is supposed to be an invention which results from the application of more than ordinary skill by a worker in a particular field of technology. Inventions that fall beneath this threshold, absent second tier protection, are deemed to interfere with the routine work of a person skilled in the art to the extent that patent protection is undesirable in the public interest.

A number of approaches may be adopted in assessing whether an invention has inventive step as follows:

1. A claim to the invention is compared with any information available to the public prior to the claim priority date. All such prior art information is deemed to form part of the knowledge of the person skilled in the art. In this approach, the prior art base for assessment of inventive step may be easily located, by appropriate searching, and extensive. Teachings from different pieces of prior art may also be combined to form an extended prior art base for assessment of inventive step. It follows that establishing inventive step may be challenging. Such an approach is followed in Europe, Japan and the United States. In Europe and the United States, some justification for combination of different pieces of prior art is needed. This seems to be less necessary under the Japanese test for inventive step. We shall call this approach the *European Approach*.
2. A claim to the invention is compared with information that is special to the person skilled in the art. In this approach, not all published prior art information will form part of the knowledge of the person skilled in the art. Only information which is qualified, through being paid some special regard by the person skilled in the art, will qualify as prior art information. In its strictest interpretation, the prior art base for assessment of inventive step may be both difficult to locate and restricted. Australia adopts this approach which derives from the Anglo approach to inventive step or obviousness. We shall call this approach the *Australian Approach*.
3. Inventive step is assessed having regard to secondary considerations such as whether the invention addresses a long felt need or whether the invention has enjoyed commercial success. Usually, such an approach to inventive step complements either of approaches 1 or 2. We shall call this the *Commercial Success Approach*.

#### Advantages and disadvantages of the differing approaches to assessment of inventive step

Each of the above approaches has its own unique advantages and disadvantages.

The *European Approach* to assessment of inventive step pays high regard to easily searched patent literature as a repository of common general knowledge. While this is administratively convenient, potentially lessening the expense of examination, the approach may lead to unrealistic assessments of what is, and what is not, inventive. In reality or practice often little regard is paid by technologists to patent literature as a source of common general knowledge yet, in this contrary approach, patent literature becomes definitive of the state of the art. Paradoxically, more basic information – which is typically held as knowledge by persons skilled in the field of the invention but which is less likely to be reported in patents – may not be identified during processes, such as examination, for assessing inventive step which tend to be patent centered. The existence of this paradox may result in unfairly restricted or unfairly broad patent rights.

The *Australian Approach* seeks to balance the problems of the *European Approach*. Prior art information must be qualified as knowledge which is special to the person skilled in the field of the invention. This means that expert evidence is usually necessary to enable the assessor of inventive step to determine whether information has the requisite special quality. This may be difficult, particularly where there is little practice in a field of technology in Australia. Even where expert knowledge is available in Australia and may be readily put into evidence, there are some strict rules about the form of the evidence that may be led. This typically makes the process of assessing inventive step expensive. Also, because the resulting scope of knowledge to be imputed to the person skilled in the art is restricted in comparison to the *European Approach*, the inventive step threshold is lowered. While it is unlikely that patent protection enforceable in line with this approach will be unfairly restricted, it is certainly possible, and some official enquiries have concluded, that patent protection may be unfairly broad having regard to the public interest. This could have undesirable economic effects in a worst case scenario.

The *Commercial Success Approach* tries to avoid the problems encountered with the other approaches to assessment of inventive step. In this approach, the decision maker is invited to apply an economic test. Has exploitation of the invention resulted in commercial success? The decision maker may be invited to consider commercial evidence such as sales or other revenues connected with the invention. It is potentially less necessary then for the decision maker to make assessments of inventive step following a complex determination of the prior art base, and the degree of invention necessary to make an invention patentable, although such determination is conventional. Assessing the degree of invention necessary to make an invention patentable is a difficult task under either the European or Australian approaches to inventive step. Access to an economic test for inventive step might also address the difficulties and expense associated with presentation of expert evidence. Such a test is therefore worth consideration.

#### Are economic tests new on the patent scene?

Economic tests for invention are as old as codified patent systems. The Venetian Patent Code of 1474 sought to reward inventions that are of 'great utility and benefit to our commonwealth', this broadly summarising a commercial success test as objectively judged by that State.

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Continued from Page 1

The *Statute of Monopolies* 1623 (England), s 6, implemented as it was to restrict monopolies, had a more negative slant, seeking only to reward inventions that are: 'not contrary to the law nor mischievous to the State by raising prices of commodities at home, or hurt of trade....'

Dependent on one's interpretation of the word 'commodities', and one's perspective, s 6 may in fact implement an anti-commercial success test though the provision has not been interpreted by the Courts in that way.

The *Indian Patents Act* 1970 judges inventive step by reference to either or both of: the state of the art and economic significance – which can be read as commercial success. Section 2(ja) provides:

'"inventive step" means a feature of an invention that involves technical advance as compared to the existing knowledge or having economic significance or both and that makes the invention not obvious to the person skilled in the art.'

This provision makes 'economic significance' a test of inventive step alone. The test does not require comparison with the existing knowledge and probably marks the high water mark for economic significance as a test of inventive step.

### The Australian approach to commercial success as an indicator of inventive step

Commercial success is certainly an indicator of inventive step in Australia, reference having been made in Australian decisions to the *Graham v John Deere Co* line of cases from the United States. However, it is considered to be of secondary importance to comparison of the invention with existing knowledge of the person skilled in the art. It is a secondary consideration that may be helpful but rarely, if ever, decisive. Australia's High Court has approved the use of commercial success as an indicator of inventive step in *Firebelt Pty Ltd v Brambles Australia Ltd* (2002) 188 ALR 280. In another case, the High Court referred with approval to the United States case law noting that:

'...the enquiry into secondary considerations of non-obviousness has been treated as being an important enquiry which must be taken into account because prior art cannot be evaluated in isolation.'

On the other hand, Australia's Federal Court – the court which will be most often called upon to apply commercial success tests – has called into question the practicality and accuracy of economic tests for inventive step. To take evidence of commercial success as decisive, on its own, on inventive step will be to go too far because commercial success may arise from effective promotion of an invention, the promotion not necessarily having any relationship with the inventive step.

In *ITW AFC Pty Ltd v Loi and Tran Pty Ltd* [2008] FCA 552, Finkelstein J expressed concern that taking commercial success as decisive on the question of inventive step would fundamentally alter patent litigation. There would be a need for evidence of market share, growth of market share or displacement of existing prior art devices. Experts providing the economic evidence would join the 'usual passing parade' of technical experts with adverse cost consequences.

Considerable expense could arise if commercial success becomes a test in itself. Where economic evidence is required, such as in the trade practices field, costs of evidence may mount considerably. Yet, in patent law, the application of a common sense commercial success test could possibly have the opposite effect and may be of value to smaller enterprises, in particular, who cannot easily access technical expert evidence but which may be able to demonstrate commercial success associated with a feature of their patented product. In such cases, the burden of resolving conflicts in the technical evidence may also be displaced.

Would the use of commercial success necessarily be an undue burden, particularly if the Court – as it is increasingly doing now – regulates the sort of commercial evidence that could be relevant to a particular case? This may not be so. To compare with cases in the trade mark arena, evidence of sales and market share, to be contrasted in nature with survey evidence, is often led without particular difficulty. Such evidence of commercial success may not be particularly complex.

### Reservations about lack of commercial success as an evidential factor

In the above discussion, commercial success was considered from the perspective of evaluating whether there is an inventive step. While commercial success may be good evidence of inventive step, lack of commercial success is not necessarily evidence of lack of inventive step. There are at least two reasons for this. First, evidence of commercial success may not be available because an invention has not been commercialised. Second, and more importantly, commercial success may not have been achieved because of the lack of access to promotion or because the invention is contrary to current practice in a particular field of technology. That very contrary nature of the invention may be the basis for a finding of inventive step.

### Conclusion – evidence of commercial success is useful – but handle with care

Economic tests of inventive step have long been used in patent law. Indian patent law likely takes the test to its extreme, economic significance there being sufficient – on its own – to establish inventive step. In Australia, commercial success is an important secondary consideration which does not avoid consideration of inventive step from the perspective of the person skilled in the art. Commercial success will need to be linked with the inventive step and evidence will need to demonstrate this. In some cases, evidence of commercial success may assist in the resolution of conflicting technical evidence and reduce litigation costs. In other cases, evidence of commercial success may be more accessible than expert technical evidence with potential for reduced litigation costs. In either event, there are advantages for the courts and patentees in having access to evidence of commercial success, with appropriate case management, as an indicator of inventive step.

**Richard Baddeley**

## WATERMARK PROFESSIONAL STAFF UPDATE

Watermark is pleased to announce the appointment of Mark Pullen and Dr Mark Summerfield as Senior Associates of the firm.

We congratulate both gentlemen and welcome them as a valuable addition to the firm's senior practitioner group.

## IMPACT OF SHOWING AT TRADE EXHIBITIONS ON DESIGN NOVELTY

There are many commercial reasons for a company to expose new products or technology to the marketplace as early as possible: competitive advantage, return on research and development and business development investment, maximising product/technology lifecycle, opportunity to identify commercial partners or distributors and matching corporate marketing strategies, to name a few.

Consequently, it is not unusual for companies to display new developments at trade shows and exhibitions as early as possible in order to showcase their latest products and technology, as well as to attract purchasing interest.

However, unless such exposure is planned to fit in with a formal IP protection strategy, this disclosure by the owner can jeopardise the novelty of the product/technology, a criteria for patent or design protection.

Many jurisdictions provide an IP rights saving period or grace period, whereby if the product or technology is publicly exhibited before a first application for patent or design protection is formally filed, that product or technology, provided that the application is filed within the grace period, will not be deemed to be prior-published.

For example, Article 11 of the Paris Convention of 1883 allows signatories to:

'... grant temporary protection to patentable inventions, utility models, industrial designs and trademarks, in respect of goods exhibited at official or officially recognised international exhibitions held in the territory of any of them.'

The question arises as to the level of recognition that an Australian trade fair or exhibition must reach in order to meet the required threshold in Australia and thereby bring the local saving provision into effect.

This question was recently considered in *Chiropedic Bedding Pty Ltd v Radburg Pty Ltd* ([2008] FCAFC 142), on appeal from a first decision issued in December 2007, which decided whether a trade fair at which a particular mattress design was publicly exhibited met the required threshold for Australia.

Chiropedic Bedding Pty Ltd was the registered proprietor of a design under the *Designs Act 1906* (Cth) (now superseded by the *Designs Act 2003*(Cth)). It brought infringement proceedings against Radburg Pty Ltd.

The National New Products Parade, a trade fair, was held at the Melbourne Exhibition Centre between 20th July and 23rd July 1996. The fair was organised by the Furnishing Industry Association of Australia (Vic/Tas) Inc and was intended to be a showcase event on the Australian furniture and bedding calendar.

Chiropedic exhibited the Microcoil Pillowtop Plus mattress at the fair six days before applying to register a design for the mattress. Radburg argued that this deprived the design of novelty unless the fair fell within the terms of Section 47 of the 1906 act - 'exhibiting of designs at official or international exhibitions'.

Section 47 stated that:

(1) The fact that a design, or any article to which a design has been applied, has been exhibited at an official or officially recognised international exhibition, or that a description of a design has been published during the holding of such an exhibition, shall not prejudice or prevent the registration of the design or invalidate the monopoly therein, if the application for the registration of the design is made within six months after the opening of the exhibition.

(2) A certificate by the minister that an exhibition is an official exhibition, or an officially recognised international exhibition, shall, for the purposes of this section, be conclusive evidence that the exhibition is an official exhibition, or an officially recognised international exhibition, as the case requires.

The original trial judge decided that while the fair was an exhibition and was officially recognised by reason of funding from the Victorian government, it was not an official exhibition and nor was it an international exhibition because of the lack of sufficiently significant international support (there were 250 Australian exhibitors and just seven overseas exhibitors, all from New Zealand). Accordingly, Section 47 could not be relied on.

Following from this, it was held that displaying the mattress at the fair deprived the design of novelty and the trial judge ordered that the design registration be removed from the Register. (*Chiropedic Bedding Pty Ltd v Radburg Pty Ltd* ([2007] FCA 1869; (2007) 243 ALR 334).

On appeal, the Full Federal Court overturned the trial judge's decision. The appeal judges concurred with the trial judge that the fair was an officially recognised exhibition for the same reason. However, the correct interpretation of Section 47(1) requires that the exhibition be an 'official' one. In the trial case and on appeal, it was held that an official exhibition must be organised by an Australian government authority (federal, state or local government). The exhibition at issue was organised by an industry association rather than a government authority and therefore was not an official exhibition.

However, the appeal judges overturned the trial judge's decision in regard to the event not being an 'recognised' international exhibition – they found that the presence of exhibitors from Australia and New Zealand was sufficient to make it an international exhibition within Section 47(1):

'[T]he trial judge erred in formulating a test of international which involved the need for a significant foreign presence. Not only does it import into the section a requirement that is not expressly stated, but it introduces into the section questions of degree which are likely to be productive of uncertainty and expense. In our opinion, the fact that there were exhibitors from Australia and New Zealand was sufficient to make the fair an international exhibition within Section 47(1).'

Thus, the fair was not an official exhibition because it was not organised by a government body; only supported by the government. However, it was an officially recognised international exhibition. As a result, the validity of the design registration was not affected by the prior publication of the design through its display at the fair.

While this decision suggests that the threshold for an exhibition qualifying as an 'officially recognised international exhibition' is low in Australia and therefore may provide an exhibitor with a grace period to expose its product or technology, it is recommended that an IP strategy is in place prior to any disclosure and that such 'saving provisions' should not be routinely relied upon.

**Mark Pullen**

## IS THE PRESENCE OF OVERSEAS TRADE MARKS ON OUR SHELVES ENOUGH TO CONSTITUTE USE?

### Maybe not, as US Wine Producer E&J Gallo found out to their detriment.

The recent Federal Court decision in the case of *E&J Gallo Winery v Lion Nathan* ([2008] FCA 934) has come as a shock to many international trade mark owners who are questioning whether the use of their trade marks in Australia would be sufficient to overcome a potential non-use action. The Federal Court held that Lion Nathan had been successful in both its defence to an infringement action as well as in its counter claim to have E&J Gallo's trade mark removed from the Register for non-use.

Under the non-use provisions of the *Trade Marks Act 1990* (Cth), a party can apply to have a trade mark removed from the Register if it has not been used in good faith for a period of three years, but not before such time as the trade mark has been registered for a period of at least five years. When establishing the use of a trade mark, only the use by the trade mark owner or its authorised user in Australia is considered relevant.

#### Background to the proceedings

E&J Gallo is a company incorporated in the United States of America (USA) and is the second largest wine-producing company in the world. In early 2005 E&J Gallo acquired the share capital in a US company trading under the name 'Barefoot Cellars' and in doing so, acquired the Australian trade mark registration for BAREFOOT in respect of wines. Although BAREFOOT was a highly successful brand in the USA, only a limited quantity of the BAREFOOT wine had been sold in Australia in the non-use period from 2004 to 2007 (by a wine wholesaler in Melbourne).

During 2006 to 2007 Lion Nathan was developing a new carbon-neutral beer with a lemon flavouring that was less bitter than traditional beer, and in February 2007 they conceived the new product name BAREFOOT RADLER. The term 'radler' is German for 'cyclist' and more commonly describes a Bavarian-style beer flavoured with a mixture of lemon and lime. After conducting some preliminary investigations into the Australian activities of E&J Gallo, in May 2007 Lion Nathan filed for removal of the BAREFOOT trade mark registration on the ground of non-use over a three year period from 2004 to 2007. In response to the removal action, and upon the discovery of Lion Nathan's own trade mark applications incorporating the term BAREFOOT, E&J Gallo initiated proceedings against Lion Nathan for trade mark infringement. Lion Nathan then brought its removal action to the Federal Court by way of a cross-claim to the infringement proceedings and both issues were heard together in April 2008.

#### The decision

While some BAREFOOT wine had been sold in Australia during the non-use period from 2004 to 2007, neither E&J Gallo nor the prior owner of the BAREFOOT mark had exported the wine directly to Australia until some time after this non-use period. It was discovered that the wine sold in Australia during the non-use period had originally been exported from the USA to Germany, and eventually made its way to a wine wholesaler in Melbourne.

In reaching a decision on the issue, Flick J gave considerable weight to the case of *Estex Clothing Manufacturers Pty Ltd v Ellis and Goldstein Ltd* ([1967] 116 CLR 254 at 271) where it was held that an overseas manufacturer uses a trade mark in Australia if he 'projects' his goods into the course of trade in Australia. It was held that neither E&J Gallo nor its predecessor in title were in any way involved with the export of the BAREFOOT wine to Australia and therefore could not possibly have exercised control over sales of the wine in Australia. This was the court's rationale for rejecting the argument that the Melbourne wholesaler was an authorised user of the trade mark. The failure by E&J Gallo to 'project' the BAREFOOT wine into Australia meant that sales by the Melbourne wholesaler could not be considered as being use of the trade mark in Australia.

#### Has the law changed?

In addition to the finding on the issue of non-use, Flick J also held that beer and wine were not goods of the same description and therefore infringement of E&J Gallo's BAREFOOT trade mark could not have been made out in any event. The requirement for an overseas trade mark owner to 'project' their goods into Australia is a somewhat foreign concept to most trade mark practitioners, many of whom will be eagerly awaiting clarification of the decision when the matter returns on appeal in the coming months.

#### Nick Stamatou

## WATERMARK IS TURNING 150 IN 2009.

### Our first patent application was filed by our founder, Edward Waters on 9 May 1859.

And that makes us 150 years old in 2009. As we continue to grow and move forward into the 21st century it is interesting to look back to our origins and to reflect that Watermark has come a long way from the small firm run by Edward Waters and his partner Edwin Hart in Melbourne.

Edward Waters was the first president of The Australasian Institute of Patent Agents which was formed in 1890. As he remained in practice from 1859 until shortly before his death in 1917, he is widely acknowledged as the father of the profession in Australia. His son Edward, who joined him in 1896 when the name was changed to Edward Waters and Son, made a similar mark. Often referred to as 'The Colonel' (he was a Lieutenant Colonel in the 4th light horse battalion during World War I) he was the driving force and first president of the new Institute of Patent Attorneys of Australia formed in 1920 to reunite the profession which had divided into two separate associations in 1916. The Institute continues in this format to the present day.

The firm was, and continues to be, a major force in the profession in both Australia and overseas. In 1896, an Edward Waters advertisement began: "For the last 36 years I have conducted more than one-half of the whole of the patent business of this and the adjoining colonies..." While such an enviable market share is beyond the reach of any firm these days, Watermark remains one of the significant patent & trade mark firms in Australia and continues to enjoy an excellent reputation worldwide. Watermark has offices in Sydney, Melbourne and Perth.

After the Colonel's death in 1936 the firm continued to be owned and administered by the trustees of the estate. Walter Sigmont and Jack MacGregor ran the firm which continued to grow and flourish. Eventually an arrangement was made between the trustees and the principals of the firm to buy out the rights to the name and the name of the business was changed to Watermark in the 1980s.

## WE'RE NOT THE ONLY ONES TURNING 150 IN 2009

### Charles Darwin published his Origin of the Species in 1859.



The Origin of Species sparked an intellectual, social and spiritual revolution. It radically transformed our understanding of life on this planet – the origins of life, our relationship to other species and the way life can adapt or fail to do so in the face of environmental change.

Watermark is proud to celebrate our joint birthdays by sponsoring Evolution – the Experience, a conference exploring Darwin's ongoing impact in basic biology, agriculture, medicine, psychology, sociology, politics, history and religion.

Evolution - The Experience will be held at the Melbourne Convention Centre from 8-13 February 2009.

Visit the conference website for more information at [www.evolution09.com.au](http://www.evolution09.com.au)