

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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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.

CONTRIBUTORY INFRINGEMENT – SEEING THE WOOD FROM THE TREES THE HIGH COURT DECIDES ON ‘STAPLE COMMERCIAL PRODUCT’

The High Court of Australia has recently decided the first case concerning what constitutes supply of a ‘staple commercial product’ for the purposes of contributory infringement under s117 (2)(b) of the *Patents Act 1990* (*Northern Territory v Collins* [2008] HCA 49 – 16 October 2008).

Background

Mr and Mrs Collins sued the Northern Territory (NT) of Australia alleging infringement of their Patent No. 742711 directed to a method of producing a blue guaiazulene-containing oil, ‘blue cypress oil’, from a mixture of the bark and wood of *Callitris intratropica*, commonly known as the Cypress pine. This species of pine is found in the wild and in plantations in the NT.

During the 1960s the NT government planted Cypress pine at various sites with the expectation that these would be commercial timber producing sites. In 1993 Mr Collins was granted a licence from the NT Conservation commission to undertake ‘crop thinning of Cypress pine’ from the Howard Springs Plantation. In 1998 Mr and Mrs Collins applied for and were subsequently granted their patent (No. 742711) for producing blue cypress oil, an essential oil said to be useful in aromatherapy and in the manufacture of cosmetics. The NT government granted a licence to the Australian Cypress Oil Company (ACOC) to take the stems of the Cypress pine from the Howard Springs plantation

Section 117 of the *Patents Act 1990*(Cth)

This section deals with ‘infringement by supply of products’ and provides:

1. If the use of a product by a person would infringe a patent, the supply of that product by one person to another is an infringement of the patent by the supplier unless the supplier is the patentee or licensee of the patent.
2. A reference in subsection (1) to the use of a product by a person is a reference to:
 - (a) if the product is capable of only one reasonable use, having regard to its nature or design – that use;
 - (b) if the product is not a staple commercial product – any use of the product, if the supplier had reason to believe that the person would put it to that use; or
 - (c) in any case – the use of the product in accordance with any instructions for the use of the product, or any inducement to use the product, given to the supplier or contained in an advertisement published by or with the authority of the supplier.

The decision at first instance (*Collins v Northern Territory* (2007) 161 FCR 549)

The three main questions to be addressed were:

- Was the supply of an input for a patented method or process (or resulting product) capable of attracting the operation of s117(1) ?
- Was the grant of a statutory licence the supply of a product within the meaning of s117(1) ?
- Was the timber to be taken under the statutory licence a staple commercial product within the meaning of s117(2)(b) ?

The primary judge, Mansfield J, of the Federal Court answered yes to the first question, but held that there was no ‘supply’ within the meaning of s117 on the basis that the licences to ACOC were merely ‘permissive’, and there was no positive act of the NT which amounted to the ‘sale, exchange, lease, hire or hire-purchase’ or the offer to supply by way of sale *etc* of the timber.

Mansfield J then considered s117(2)(b). He first found that the NT had reason to believe ACOC would use the bark/ wood from the timber for producing blue cypress oil. Then he considered whether what had been supplied was a ‘staple commercial product’. Despite the fact that the NT had written off the Howard Springs plantation as a commercial crop for timber, he found that the trees and timber retained residual commercial value to the NT, and that there were residual commercial uses for them, *eg* use as milled timber, woodchip mulch, pine oil extraction, potting mix and firewood. He concluded the decision of the NT not to maintain the plan to allow further growth of the trees for harvesting for timber did not deprive the timber of its character as a ‘staple commercial product’.

Appeal to the Full Federal Court (*Collins v Northern Territory* (2006) 70 IPR 614)

In a majority verdict, the appeal by Mr and Mrs Collins was allowed. Branson and Sundberg JJ considered the primary judge had erred in characterising the licences to ACOC as merely ‘permissive’ and concluded that the NT had ‘supplied’ the timber to ACOC. They were also satisfied that the timber in question was not a staple commercial product.

Decision of the High Court

The appeal by the NT to the High Court was allowed unanimously by all five judges. They answered yes to the first question. Three of the judges, Haynes J, and Crennan J with whom Heydon J agreed, held that the word “product” in s117(1) is not confined to a patented product or a product that is itself the result of applying a patented method or process. Gummow ACJ and Kirby J while not expressly stating this, said that in relation to the conduct identified by s117, namely the “supply of [a] product” by one person to another, “[t]he critical condition for the imposition of liability for infringement is that which is stated first. This is that the use of [the] product by the person to whom it is supplied would infringe [the] patent” (s117(1)). They also confirmed that the term “supply” has a broad meaning and that the conduct of the NT government amounted to a ‘supply’ of the timber to ACOC, but they all agreed that the timber taken under the statutory licences was a ‘staple commercial product’ within the meaning of the Act. Therefore, the supply of the staple commercial product by the NT government to ACOC did not infringe the patent.

Staple commercial product

Gummow ACJ and Kirby J found that the evidence was clear that in the case of *Callitris Intratropica*, its timber is suitable for use in a variety of applications for which timber is generally used and is therefore a staple commercial product.

Crennan J’s judgement, with which Heydon J agreed, was more detailed, discussing the legislation of Australia, UK and USA dealing with indirect or contributory infringement finding that the phrase ‘staple commercial product’ means a product supplied commercially for various uses. This does not mandate an enquiry as to whether there is ‘an established wholesale or retail market’ or whether the product is ‘generally available’ even though evidence of such matters may well be sufficient to show that a product is a ‘staple commercial product’. *The relevant enquiry is whether the supply of the product is commercial and whether the product has various uses.* Leaving aside the supply to ACOC, the timber supplied was on commercial terms to various licensees for a variety of non-infringing uses.

Hayne J agreed with the conclusion of Crennan J, but doubted that a product could be described as a staple commercial product if there were not some market for its sale for various uses. To be a ‘staple commercial product’ it must be an article of commerce that not only can be used in a variety of ways but is also traded for use in a variety of ways.

Comments

A controversial issue of Australian patent law has been laid to rest. The word “product” in s117(1) is not confined to a product resulting from the use of a patented method.

The enquiry as to what constitutes a ‘staple commercial product’ expressed by Crennan J (and agreed upon by Heydon J with a similar conclusion reached by Gummow ACJ and Kirby J) is likely to be followed in subsequent cases. However, the more qualified reasoning of Hayne J seems to represent a better interpretation of s117(2)(b), particularly since s117(2)(a) deals with the situation where the product is capable of only one reasonable use.

A curious aspect of the case is that Mr and Mrs Collins chose first to sue the Northern Territory of Australia for contributory infringement, rather than suing the direct infringer, ACOC. The Federal Court at first instance directed that a separate trial be held initially to determine the issues of the definitions of ‘supply’ and ‘staple commercial product’ on the assumption that ACOC’s activities constituted a direct infringement of the patent.

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