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IAM: Looking at patent trends in Australia and the US.

How do the two countries differ in their use of the patent system? You might be surprised to see that the differences go beyond mere volume.

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Watermark tops IP Strategy firms

Watermark was voted the top IP Strategy Development Law Firm in Australia in the Corporate International Magazine 2010 Legal Awards. The award reflects our growing reputation in Intellectual Asset Management.

IAM: a leader

Mark Pullen a senior associate in our Perth office, has been appointed as chairman of the Western Australia 'Innovator of the Year Awards 2011'. In addition, Mark will chair the WA regional chapter of the Licensing Executives Society of Australia and New Zealand. Both are significant appointments and we applaud Mark's contribution and leadership.

Copyright gets some clarification.

The Full Federal Court recently determined whether a literary work which was substantially compiled by automation met the requirements for copyright protection.

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Stop Press!

Amendments to the Australian Patents Act will come into force retroactively for patent applications upon which an examination report has not issued, and will apply higher standards of examination in enablement and inventive step. Clients may wish to expedite examination to possibly avoid these higher standards and uncertainty. Please contact us for more information or help.



Comparison of Australian and US Patent Grants.

Patent research company IFI CLAIMS Patent Services recently released its annual list of top US patent recipients for 2010¹. Notably, companies in the information and communications technologies (ICT) sector dominated the list, which was headed by IBM with an astonishing, and record-breaking, 5,896 US patents issued in 2010. IBM has now topped the US patent charts for 18 consecutive years.

Why look at granted patents?

While the number of patent applications filed may be an indicator of the current level of investment in innovation, the number of patents issued is a better measure of the quality of innovation over the preceding five years. Weak, or low-value, applications are generally abandoned while still pending, or fail to pass examination. An issued patent, therefore, represents a more valuable intellectual asset of the patentee than does a pending application.

Survey of 2010 Australian patent grants

We have conducted our own research into corresponding figures for Australian patent grants in 2010, and the results are quite revealing of differences in the use of the patent system in the two countries. Unsurprisingly, there is a large disparity between the numbers of patents issued in the two countries (see Table 1). However, the figures are probably substantially in line with the relative sizes of the two markets.

Although the US patent system has a reputation, in theory at least, for being more 'friendly' to individual inventors and small entity applicants, the statistics paint a different picture in practice. Over one quarter (28%) of all US patents issued in 2010 were awarded to only the top 50 recipient companies, with in excess of 10% being issued to the top 10 companies. These percentages are lower in Australia, suggesting a more even distribution in the award of Australian patents, and perhaps greater opportunities for smaller companies to participate in, and benefit from, the Australian patent system. Overall, the 15,856 patents granted in Australian in 2010 were awarded to over 7,500 distinct patentees. Nonetheless, the top 50 patent recipients accounted for nearly 20% of all patents granted in Australia.

There is, interestingly, minimal overlap between the top patent recipients in the United States and Australia (Table 2). Only two of the US top 10 – Microsoft and LG Electronics – make it into the corresponding Australian list, and only two further members of the Australian top 10 – Qualcomm and Silverbrook Research – even make the US top 50. Silverbrook, incidentally, is the sole Australian company to appear in both lists (at no. 34 in the US, and no. 10 in Australia), and also the only Australian company in the US top 50.

Profile of top patentees

The US top 10 is comprised entirely of ICT companies based in the US, South Korea and Japan. The Australian top 10 is a more eclectic mix of ICT (Microsoft, LG, Silverbrook and Qualcomm), pharmaceutical/healthcare (Novartis), petrochemical/energy (Shell), chemical (BASF), engineering/chemical (Daikin), and gaming (IGT and Aristocrat). Every member of the US top 10 is a household name, whereas many people would be less familiar with companies on the Australian list, such as Qualcomm, Novartis, IGT, Aristocrat and Silverbrook.

It is also notable that the majority of companies on both lists are 'practicing entities', i.e. their patent portfolios serve primarily to support and protect intellectual assets embodied in their own products and services. The most significant exceptions are Qualcomm and Silverbrook, the business models of which are based primarily on developing and licensing technology to third parties. This business model requires broad international rights, in order to facilitate global licensing programs, which no doubt explains the appearance of both companies in the top 50 patentees in the US and Australia.

While IBM derives substantial revenue from licensing of its patent portfolio, this remains a relatively small part of the company's total annual revenue, and does not appear to be based on a global patenting strategy. IBM was awarded a grand total of only 20 Australian patents in 2010.

Conclusion

Overall, the patent environment in Australia shows notable differences from that of the US, most particularly in being dominated less by the ICT sector, and including instead a mix of top patentees in the ICT, energy, chemical, pharmaceutical, healthcare, gaming and engineering fields. A comparative lack of interest in the Australian market by some of the major US and Asian ICT players – at least to the extent that this is reflected in investment in protection of intellectual assets – suggests that Australia remains a relatively fertile ground for the development of new business in the ICT sector. This is partly due to the potential opportunities for innovation in the Australian market, but also to the reduced likelihood of limitations on freedom-to-operate in Australia due to the lower level of patenting activity in the sector.

Mark Summerfield

¹ <<http://www.ificlaims.com/news/top-patents.html>>

	USA	Australia
No. of Patents Sealed	219,614	15,856
% Patents to top 10 patentees	12.6%	8.3%
% Patents to top 20 patentees	18.1%	12.1%
% Patents to top 50 patentees	28.0%	18.5%

Table 1 Summary Statistics

Position	USA		Australia	
	Company	Patents	Company	Patents
1	IBM	5896	Microsoft	282
2	Samsung	4551	LG Electronics	245
3	Microsoft	3094	Daikin	138
4	Canon	2552	Qualcomm	136
5	Panasonic	2482	Novartis	114
6	Toshiba	2246	Shell	88
7	Sony	2150	IGT Reno NEV	83
8	Intel	1653	BASF	82
9	LG Electronics	1490	Aristocrat	79
10	Hewlett-Packard	1460	Silverbrook Research	69

Table 2 Top patentees 2010



Copyright gets some clarification

Summary

In a unanimous decision, the Full Federal Court, in *Telstra Corporation Ltd v Phone Directories Company Pty Ltd* [2010] FCAFC 149, found no copyright subsisted under the *Copyright Act 1968* in the White Pages® and Yellow Pages® directories published by Sensis Pty Ltd (Sensis). Sensis is a wholly-owned subsidiary of Telstra, the major telecommunications and information services company in Australia.

Background

The White and Yellow Pages directories list the names, addresses, telephone numbers and other information in relation to residential or business customers for a particular geographic region.

Since October 2003 the listing information has been entered into a database automatically, except for about 15 % of cases which are entered manually. The computer system automatically checks to ensure completeness and accuracy of the information, and that it is in a form that complies with 'rules' that prescribe the font, colour scheme, word spacing, and prohibit certain words or phrases. Data from one year acts as a template for the following year. Further programs compare and update the data for the new edition, and ensure the information is correct, properly ordered and formatted prior to publishing. There are some manual checks undertaken to look for errors. The computer system comprises a number of programs, very little of the content of which was created by Telstra or Sensis employees.

Full Federal Court

To succeed in the appeal, Telstra needed to establish that copyright subsisted in the directories.

According to the *Copyright Act 1968*, copyright can subsist in a compilation, and the author of a literary work is the owner of the copyright in the work. A work is made when it is first reduced to a material form, whether that be in writing or some other material form such as a computer file. Under Australian law in relation to original works, an author must be a human.

The Court reduced the directory production process into three main phases. The first involved the maintenance, updating and editing of a database containing customer details (the Collection Phase). The second involved the extraction from that database of information for each directory and the conversion of that information into an electronic form which was substantially the form of the ensuing directory (the Extraction Phase). The third process involved the typesetting of that form and the physical production of the directories (the Production Phase).

The Court considered that, although there was substantial effort, including intellectual effort by many employees in the collection phase, their efforts had no influence on the actual material form of the work. Therefore they were not authors of the work. In relation to the Extraction Phase, the Court agreed with the primary judge and held that this phase was when the work was first reduced to its material form (galley file), was ostensibly dictated by computer programs, and any human involvement merely ensured that the 'rules' of the Extraction Phase programs were adhered to. The directories did not, therefore, have an author, and copyright cannot subsist in them.

A Case For Appeal

Telstra has a lucrative business producing phone directories, so it is not surprising that it has filed for special leave to appeal to the High Court. Had Telstra created the software that generates the material form of the work, perhaps it would have a stronger argument that its employees authored the material form of its directories.

Whether copyright protection should be afforded for data that is merely collated and published, with little direct human 'intellectual' input on the presentation of the information, is a debate about to heat up.

Bruce Dowsing

US Patent Reform Bill proposes to introduce 'First to invent'

For many years the USA has been out of step with the rest of the world by retaining its 'first to invent' system. Nearly every other country has a 'first to file' patent system. This is likely to change if the US Senate passes patent reform legislation.

First to invent vs first to file

Under the current first to invent system, entitlement to grant of a patent belongs to the person who first invented the subject matter claimed, even if a later inventor files a patent application before the first inventor. To determine the owner of an invention when there are two or more competing patent applications directed to the same invention, an 'interference' is declared by the US Patent and Trademark Office (USPTO). During the interference proceedings, an inventor relying on first to invent principles must establish that he or she has not abandoned, suppressed or concealed the invention, and the USPTO will determine:

- the date of conception of the invention
- the date of reduction to practice (filing a patent application is one way of reducing an invention to practice) and
- the degree of diligence of the parties in establishing the invention.

Under a first to file patent system, the first party to file a patent application is entitled to be granted a patent for the invention.

First to file patent systems are much simpler to administer, and disadvantages of the US first to invent system include that:

- interference proceedings are very costly and can take several years to be concluded
- maintaining good laboratory/workshop records to be able to prove when an invention is conceived and reduced to practice is very important for inventors wishing to rely on first to invent, but also a time-consuming and onerous responsibility.

The US Patent Reform Bill of 2011

On 3 February 2011, the Senate Judiciary Committee approved patent reform legislation that would transition the US from a first to invent system to a first to file system with the aims of simplifying the US patent application system, harmonising it with international trading partners, reducing costs and improving the competitiveness of American inventors seeking protection internationally.

Some other proposed changes in the Reform Bill

The Bill also aims to improve patent quality by:

- allowing prior art to be submitted by third parties during examination
- introducing post-grant opposition
- improving the current system for challenging the validity of a patent at the USPTO throughout the life of the patent.

Currently, there is a back door mechanism of introducing prior art before patent grant by informing the applicant of relevant prior art. The applicant is then statutorily obliged to disclose the materially relevant prior art to the USPTO. Since 'material relevance' is a subjective test, this does not always happen. The new proposal will ensure patent examiners will consider the prior art submitted by third parties.

There is presently a re-examination procedure for challenging the validity of a patent after grant, but re-examination proceedings can take more than three years to be decided.

The post-grant opposition procedure is proposed to be completed within 12 months and will involve adversarial review to be decided by an administrative tribunal.

There is also a proposal to revise awards for damages for patent infringement. The award of willful and enhanced damages will be more closely controlled.

A proposal to create a special re-examination procedure for business method patents is yet to be resolved.

Roger Green



Serving up a more complete picture.

The recent decision of *Les Laboratoires Servier v Apotex Pty Limited*¹ is the latest in a series of recent Australian court decisions in which the issue of court discretion in allowing amendments to be made to the claims while the patent is the subject of legal proceedings has been addressed.^{2,3,4}

The decision illustrates the difficulties that can arise when seeking to amend the claims of a granted patent before the court, and emphasises the need to align business strategy, including product lifecycle management, with patent strategy.

Court In The Act

Under section 105 of the Patents Act 1990, a patentee may submit a request that the court direct amendment of the claims of a patent, providing reasons for the request. The refusal or allowance of the amendments is, however, at the discretion of the court. It is widely recognised that where the patentee has delayed seeking the amendment to benefit his own position, getting the court to agree to make the amendments requested may be difficult. Reflecting a recent trend, this decision emphasised the need for full and frank disclosure of the reasons for the amendments.

The Appeal Decision

This decision is an appeal from an earlier decision⁵ in which Apotex sought to revoke the claims of Australian patent no. 2001276418. Servier, the patentee, had in turn requested amendment of its patent to add a new set of claims while retaining the original claims of the patent. In that decision, Bennett J decided that Servier had failed to provide a frank and full disclosure of its reasons for wanting amendment of the claims of the patent and the amendment was disallowed. Servier appealed the decision, but the appeal too was dismissed, the majority of the court agreeing with the reasons given by Bennett J.

The Claims and Amendments

The patent is entitled 'New alpha crystalline form of perindopril tert-butylamine salt, a process for its preparation and pharmaceutical compositions containing it'. The existing claims of the patent as originally granted included claims directed to the alpha crystalline form of the perindopril tert-butylamine salt characterised by a particular X-ray diffraction diagram, a process for the preparation of the alpha crystalline form of that salt, a pharmaceutical composition containing that salt, and a method of treatment of cardiovascular diseases comprising administering an efficacious amount of that salt to a patient. The new set of claims that Servier sought to have included were essentially identical to the claims as originally granted, but further characterised by the alpha crystalline form of the salt being in the form of 'individual needles'.

In a first affidavit provided to the court in support of the amendments, the only reason given was that Servier's attorney had formed the view that the patent disclosed matter relating to the crystal habit and filterability of the crystals that could be the basis of new claims. Following cross-examination of the attorney, a second affidavit was provided. It was only in the second affidavit that reference to a recognition of the need to reduce invalidity risk was made. After concluding that Servier had waived privilege in respect of its attorney's advice relating to the amendment, the Court ordered Servier to discover communications or records of communications between Servier and its attorney relating to the need to make the amendment. On review of these communications, it was revealed that the actual reason for seeking the amendments was to overcome potential validity issues raised in a related UK proceeding.

The Decision

Bennett J concluded that Servier had failed to provide the Court with the real reasons for requesting amendment to the claims, and that the discretion of the Court to refuse the amendments should be exercised.

Align IP Reviews With Product Lifecycle

In determining whether patent amendments are required, it is critical to assess the risks of doing so in the context of the legal environment. Post-grant patent amendments can also be made before the Patent Office prior to any legal action being initiated and, in this forum, the Commissioner has no discretion to consider the reasons for the amendment.

Since the timing of legal proceedings is not always in the control of the patentee, regular review of the claims of a granted patent in light of newly uncovered prior art or other circumstances is ideally conducted, and amendments made on a continuous and regular basis. In the pharmaceutical industry in particular, it is crucial to actively manage a patent through the product lifecycle so that maximum scope and term of protection can be retained. Aligning patent review mechanisms to product lifecycle management helps to ensure that new drug formulations or structures, uses, product combinations, kits or administration routes are continuously and well protected for as long as possible, so that maximum return on investment can be obtained. Regular review of claims of existing patents can be made as part of this same process so that the issues that led to failure in this case can be avoided.

Michael Chin Quan

- 1 Les Laboratoires Servier v Apotex Pty Limited [2010] FCAFC 131 (11 November 2010)
- 2 Zetco Pty Ltd v Austworld Commodities Pty Ltd [2010] FCA 235 (17 March 2010)
- 3 CSL Limited v Novo Nordisk Pharmaceuticals Pty Ltd [2010] FCA 671 (28 June 2010)
- 4 Bristol-Myers Squibb Company v Apotex Pty Ltd [2010] FCA 814 (4 August 2010)
- 5 Apotex Pty Ltd v Les Laboratoires Servier (No 2) [2009] FCA1019 (11 September 2009)

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Meet Paul Fong

"The biggest buzz for me is seeing my clients' products in the marketplace. I feel like they're my products because I've worked alongside the client to get them out there. New ideas really excite me. When you look at all the new technology and innovation out there, our future just keeps looking brighter."



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