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Pursuing intellectual property rights in China – is there really any point?



Ray Tettman explores whether China's commitment to anti piracy has reached a tipping point which justifies protecting your IP

• See page 2



**IP Strategists
Recommended
Individual 2011**

Watermark's world class IP professionals...

Congratulations to our Principal, **Roger Green** for his inclusion in Intellectual Asset Magazine's *Strategy 250 – The World's Leading IP Strategists*. Roger has been nominated as an individual who offers IP owners world-class strategic IP business advice.

Congratulations are also due to our Senior Associate and Lawyer, **Peter Hallett** for his inclusion in the *IAM Licensing 250 - The World's Leading Patent & Technology Licensing Lawyers*. Peter has been identified as one of the world's top lawyers in the area of patent and technology licensing.

Congratulations to Dr Chris Vindurampulle on his registration as a qualified Patent & Trade Marks Attorney.

Trans-Tasman Cooperation

Taking a look at the reforms needed to the intellectual property system in order to develop one process that accommodates two different sets of legislation and policies.

• See page 2

Watermark client wins second prestigious award

For the second year running SIPs Industries Australia Pty Ltd has won a GreenSmart Award, promoted by the Western Australian Housing Industry Association. This year SIPs Industries Australia won the 2011 Partnership Award and last year, the 2010 Product of the Year Award.

Structural Insulated Panels (SIPs) offer a green, energy and cost efficient solution to building construction. SIPs buildings are made with pre-manufactured panels that have outstanding strength and durability. The panels are heavily insulated providing thermal efficiency, critical in Australia's harsh climate. The core of insulation is sandwiched by two outer engineered timber boards

which can be used as floors, roofs, internal and external walls, replacing traditional wooden framing.

Using pre-manufactured composite panels speeds up the construction process considerably since panels are made to order before delivery to site. Typically the main structure of a building can be erected in days.

SIPs Industries specialises in all areas of building, including design, manufacture and on-site construction. Operating in the United Kingdom, South Africa and Australia, the sustainable product has demonstrable benefits to the environment.

Watermark's Perth office is currently helping SIPs Industries to protect and defend their intellectual property.

Cathy Hood



Providing award winning IP Strategy Development...

Watermark was selected by Corporate INTL Magazine to take out the 2010 Award for *IP Strategy Development Law Firm of the Year in Australia*.

Corporate INTL Magazine's independent research team reached its decision based on our service range, geographical location, operating procedures and the extensive expertise of our team.



Pursuing intellectual property rights in China

Watermark's local clients, particularly Australian based companies that have products or parts manufactured in China, often ask the question:

'Is there really any point in trying to protect our IP in China when our product is likely to be copied anyway?'

This question is posed by clients because China has the reputation of being one of the biggest counterfeit and piracy markets in the world, and that enforcement of IP rights is difficult and expensive. Delegations from Chinese government authorities have been reassuring us for many years that their IP system is improving. But is it really?

In October last year, the Chinese government launched an anti piracy campaign: a nationwide crackdown on fake goods and copyright piracy. It was initially set to last for six months but has been extended. Some of our Chinese associates have recently suggested it is actually making a difference. It does seem the authorities are more determined than in the past to achieve results.

Promoting innovation by Chinese companies is also one of the government's

main policy goals. The government recognises that being the world's low cost workshop for manufacturing high-tech products designed elsewhere has its limits. In encouraging 'indigenous innovation' the government is providing incentives for Chinese companies to file patent applications.

The National Patent Development Strategy (2011-2020) was published in November 2010 and outlines specific targets for 2015 and 2020. For example, by 2020, the number of Chinese originating patents for inventions, and the number of patent applications in foreign countries from China, is targeted to quadruple, and core patents will be acquired. The government in China clearly regards patents as a vital business asset which will play a key role in the country's development.

A 2010 report by Thomson Reuters¹ predicts that patent filings in China will surpass both Japan and the US in 2011. That will make China the top ranking country by number of patent filings. Of those filings, most are by Chinese applicants. Indeed, patent filings by Chinese applicants are growing much faster than those by foreign applicants, and have outnumbered foreign applicants since 2003.

Chinese applicants are also filing patents overseas. WIPO² statistics show that China was the fourth highest country of origin for international patent applications in 2010 (behind only the US, Japan and Germany) having grown 56% since 2009. Similar growth rates for Chinese applicants can be seen in Europe 33.5%, Japan 15.9% and the US 14.1%. Internationally, there is more pressure on China to conform with international IP standards including issues of enforcement.

The numbers speak for themselves. The Chinese government's policy to encourage innovation and the filing of patent applications is working, both domestically and internationally. This means that the enforcement of IP rights within China will be increasingly important to Chinese companies and the local economy. Willing or not, the legal system is being forced to catch up and change. And that is good for all IP rights owners in China whether Chinese or foreign, including Australian.

So, what's the answer to the question? For Australian based companies that do business in China, the answer is 'Yes'. There is a point in registering your IP in China. IP is a priority for the Chinese government, and enforcement of IP rights is improving, both for locals and for foreigners.

Ray Tettman

1 Patented in China – The Present and Future State of Innovation in China
2 World Intellectual Property Organisation

Trans-Tasman Cooperation

A high level of cooperation has existed for many years between the Australian and New Zealand governments with a commitment to create a seamless trans-Tasman business environment between the two countries.

In August 2009 the Australian and New Zealand governments announced a Single Economic Market ('SEM') outcomes framework between the two countries. One component of this framework is the integration of the intellectual property systems of the two countries to provide:

- one application process for patents,
- one examination process for patents,
- one trade mark regime,
- one plant variety right regime, and
- a single regulatory framework for patent attorneys.

Integration of Patent Examination between Australia and New Zealand

In February 2011 during bilateral talks on a number of topics, the next part of the SEM outcomes framework was outlined, including a commitment to establishing a joint patent examination system between the two countries.

According to the statement issued by the respective Australian and New Zealand intellectual property offices (<http://www.ipaustralia.gov.au/pdfs/news/>) this integrated patent system will be a world first. Two separate patent applications for the same invention filed in both Australia and New Zealand will be examined under the laws of the relevant country by one examiner located in either country. The intention is to reduce costs and to provide a faster examination process with a more consistent and high quality examination.

It is proposed Australia and New Zealand will operate as one integrated patent examination entity in practice but not in law. Examiners will grant or refuse applications under each country's law. Both countries will however retain flexibility to implement legislation and policies.

The success of the integrated system will depend on examiners being trained in the laws of both countries and in understanding and applying both laws.

However significant differences currently exist between the Australian Patents Act 1990 and the New Zealand Patents Bill 2008 ('the NZ Bill'). Differences include the law on inventive step and statutory exclusions from patent protection in New Zealand (not Australia) that include methods for the medical treatment of humans by surgery or therapy and methods of diagnosis practiced on humans. Also the NZ Bill has recently been amended to exclude computer programs from patent protection.

The Australian Patent Office predicts it will be three years before a single patent examination process between the two countries is implemented, although this may be optimistic given some of the differences that exist.

A Single Regulatory Framework for Patent Attorneys in Australia and New Zealand

In April 2011 as a further part of the SEM outcomes framework, the Australian Patent Office and the Ministry of Economic Development in New Zealand issued a discussion paper for a single trans-Tasman patent attorney regulation.

The key reform proposed in this discussion paper is the establishment of a single trans-Tasman Government Board or body responsible for education, discipline and registration of patent attorneys. Again, there are differences between the two countries that will impact on the ultimate success of this integration.

The current Trans-Tasman Mutual Recognition Arrangement allows reciprocal registration for patent attorneys in each country. Watermark attorneys are registered and practice before the New Zealand Patent Office. Ultimately, if this new framework is implemented, Watermark will continue to assist in protecting and managing the intellectual assets of its clients in Australia and New Zealand.

Jill Newton



Does mere naming of a chemical compound destroy novelty?

It is well established in Australia that a claim will lack novelty if each essential feature is disclosed in a prior art document. What remains less clear, however, is the level of disclosure required to destroy novelty, particularly in chemical cases.

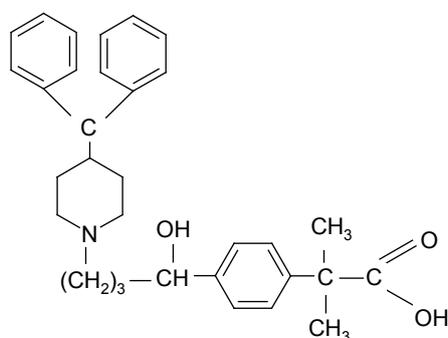
Enablement

Traditionally, the requirement that the disclosure 'enable' the skilled person to put the invention into practice was clear: 'the antecedent statement must be such that a person of ordinary knowledge of the subject would at once perceive, understand, and be able practically to apply the discovery without the necessity of making further experiments and gaining further information before the invention can be made useful' (English Court of Chancery in *Hill v Evans*¹, approved by the High Court, (the highest court in the Australian judicial system) (in *Olin Corporation v Super Cartridge*²).

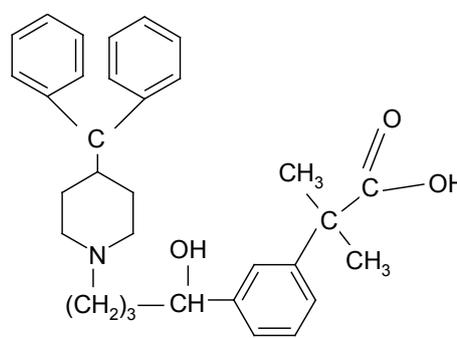
In more recent years, a potentially inconsistent line of authority has developed, which casts doubt on the enablement requirement where the relevant claim relates to a chemical compound: '[w]here the prior publication discloses exactly what is claimed, there is anticipation' (Full Court *obiter* in *H Lundbeck v Alphapharm*³, applied by the same judges in *Apotex v Sanofi-Aventis*⁴).

Albany Molecular Research v Alphapharm

The apparent tension between these lines of authority is set to again come under the judicial spotlight. Albany Molecular Research, Inc ('AMR') has recently filed a Notice of Appeal from the decision in *Albany Molecular Research v Alphapharm*⁵.



Fexofenadine (para regioisomer)



Corresponding meta regioisomer

The dispute centres on the isolated compound fexofenadine (shown above, left).

In the most significant aspect of the first instance decision, Jessup J considered whether claims to a substantially pure compound lack novelty. It was not in dispute that the closest prior art disclosed the isolated compound. However, Jessup J found that the prior art did not disclose an effective means of **preparing** the isolated compound. After extensive consideration of expert evidence, Jessup J was satisfied that following the instructions set out in the examples of the prior art would lead to a mixture of fexofenadine and the meta regioisomer (shown above, right), **not** isolated fexofenadine.

Validity of the relevant claims pivoted on whether, given these findings of fact, the claims were novel.

Jessup J felt he was bound by the law as expounded in *Lundbeck* and *Apotex*, notwithstanding the High Court decision in *Olin Corporation*. In siding with the closest factual precedent, Jessup J held that 'the disclosure of a compound by exact naming in the prior art is sufficient, of itself, to constitute anticipation'. It is not necessary to prove that the prior art enables the manufacture of the claimed compound. His Honour's reasoning leads to the unusual result that although the relevant claims are inventive, they lack novelty. Jessup J's orders revoking the relevant claims of AMR's patent have been stayed pending the appeal decision.

Patent Office Position

Interestingly, Australian patent examiners do not appear to be following the decisions in *Lundbeck*, *Apotex* and *AMR* as no reference is made to any of them in the relevant section of the examiner's manual⁶. The manual asserts that the definition of enabling disclosure in chemical situations is 'one sufficient in the case of a claim to a chemical compound to enable those skilled in the art to make the compound', citing the twentieth century English authority *Pall Corp v Commercial Hydraulics*⁷, which is consistent with the traditional *Hill v Evans* approach. It is not clear whether the absence of references to more recent Australian authority is deliberate, however, as the section of the manual has not been updated in five years.

Relevance to Pharmaceutical Patent Applicants

The AMR decision has particular relevance for chemical and pharmaceutical companies operating in Australia and has implications for the novelty of some chemical compound claims. As the law and Patent Office practice stand, originator companies with compound claims accepted by the Patent Office may find it difficult to defend third party novelty attacks in opposition or court proceedings, particularly where prior art enablement is at issue. It is likely to be a number of years before the available avenues of appeal from the first instance *AMR* decision are exhausted and a higher degree of legal certainty restored.

Geordie Oldfield

¹ *Hill v Evans* [1862] EngR 365.

² *Olin Corporation v Super Cartridge Co Pty Ltd* [1977] HCA 23.

³ *H Lundbeck A/S v Alphapharm Pty Ltd* [2009] FCAFC 70.

⁴ *Apotex Pty Ltd v Sanofi-Aventis* [2009] FCAFC 134.

⁵ *Albany Molecular Research Inc v Alphapharm Pty Ltd* [2010] FCA 120.

⁶ Australian Patent Office Manual of Practice and Procedure Part 2.4.12.1.3.

⁷ *Pall Corporation Commercial Hydraulics (Bedford) Ltd* [1990] FSR 329



US Court of Appeals Decides that 25% Rule in Royalty Calculations is Inadmissible

The '25% rule' is a well known tool used to assist in the calculation of what royalty the manufacturer of a patented product might reasonably pay to the patent owner in an arms-length negotiation.

The tool is often thought to have its origins in a study in the 1950s conducted by Robert Goldscheider of 18 exclusive patent licence agreements, although there is evidence that the tool had been used for valuation purposes before then. Mr Goldscheider concluded from his study that each of the licensees ultimately paid to the licensor 25% of the licensee's anticipated profits from sale of the patented product. Subsequent studies published by the Licensing Executives Society have lent support to its validity. The underlying rationale for the rule is that '75/25' typically reflects a fair sharing of risk and reward as between licensee and licensor.

The rule has never been formally considered by Australian courts, but it is often used as a starting point in IP licence negotiations, or as a 'sanity check' on a proposed royalty rate. In the commercial world, royalty rates are influenced by a wide range of factors, such as the nature and scope of the licence, remaining patent term, strength and breadth of the licensed patent, the relevant technology, industry norms and the bargaining position of the parties. These are often referred to as the 'Georgia Pacific' factors, after the well known US decision that considered many of the factors relevant to calculation of a reasonable royalty rate.

The '25% rule' was roundly criticised by the US Court of Appeals in the recent decision of *Uniloc v Microsoft*. One of the issues in that case was

the quantum of damages payable for infringement of a patent. Under US law, those damages must not be less than a reasonable royalty. The '25% rule' had been used in many previous US cases, but the court considered that its admissibility had never previously been squarely challenged.

The court noted that the '25% rule' has met with plenty of criticism. For example it does not take into account the particular patent or technology, or the unique circumstances of the licence. It makes no allowance for the negotiating position of the parties or the risks associated with the licensing deal, or any of the other 'Georgia Pacific' factors.

The court concluded that the '25% rule' is 'a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation', and that evidence relying on the rule is inadmissible because it fails to tie the royalty rate to the facts of the case in issue.

Some commentators have seen the case as the final 'nail in the coffin' for the 25% rule, and clearly in the absence of higher authority the rule will no longer be used in damages assessments in US patent cases.

However, it remains to be seen whether licensing professionals will abandon all use of the tool. It is suggested that licensing professionals never viewed the '25% rule' as anything more than one of many tools that can be used in royalty calculations – at most it is seen as a starting point for placing a value on a licensed technology before the Georgia Pacific factors are applied. It is certainly a blunt tool that lacks the rigour of discounted cash flow calculations, game theory or other analytical techniques. But it has the appeal of simplicity and there is evidence that supports its use. In many cases 75/25 will in fact represent a reasonable sharing of risk/reward between licensee and licensor, although it is not a short cut for avoiding hard-nosed commercial negotiations.

Peter Hallett

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Meet Carla Cher

"The innovation of technology miniaturisation and miniature technology of our clients is changing the world. Although I can't see a lot of the technology I work with easily with the naked eye, the products it is ultimately put in to will be seen and used by millions of people. It's exciting helping our clients create something many will benefit from."



IAM

Part of your team

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IAM: Keeping up to date

Intellectual Asset Management (IAM) is not simply about patents and trade marks. IAM is concerned with all aspects of the intellectual assets of a company while ensuring an approach that will suit your business and the future direction of the company. It is no longer just a matter of looking at your business in isolation, it is necessary to consider:

- Your competitors;
- How you can capitalise on your intellectual assets;
- What trends are occurring in the local and global market; and
- Where your industry and the technology that you use is headed.

Can't just think local any more

If you understand the global market and how it is affecting the local market, you can have a better understanding of what areas are likely to expand in your local market and conversely which areas are likely to diminish or in some other way, change.

Keeping in touch with technology

Likewise it is important to keep up to date with technology and what is occurring in your technology field. Our attorneys at Watermark are actively involved in a number of industry organisations. Knowing what factors may affect you and your business or how to capitalise on a specific area of the market is crucial. Being actively involved for almost 15 years within Engineers Australia, the peak engineering industry body in Australia, Carla Cher has networks in many sectors of the engineering community, particularly biomedical and micro and nanotechnology. Keeping up to date with trends and innovation in technology in this way is imperative, enabling us to advise our clients in a complete business focussed, IAM approach; rather than merely commenting on intellectual property matters, such as patent or trademark issues.

Carla Cher