



ADVISORY COUNCIL ON INTELLECTUAL PROPERTY

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**Extension of the jurisdiction of patent,  
trade mark and design matters to the  
Federal Magistrates Service**

**ISSUES PAPER**

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**July 2001**

## Extension of the jurisdiction of patent, trade mark and design matters to the Federal Magistrates Service.

### Overview

The Advisory Council on Intellectual Property (ACIP) is an independent body established to provide advice to the Minister for Industry, Science and Resources and IP Australia on matters of policy and administration. The Hon Warren Entsch, MP Parliamentary Secretary to the Minister for Industry, Science and Resources has responsibility for patent, trade mark and design matters within the portfolio.

Over the past ten years there have been repeated calls from interest groups and through government reviews to have intellectual property (IP) matters heard by a Federal inferior court structure. In response to these calls and the recent introduction of the Federal Magistrates Service, Parliamentary Secretary Entsch has requested that ACIP examine and report on the possibility of the Federal Magistrates Service jurisdiction being extended to hear intellectual property matters.

Although IP rights extend beyond patents, trade marks and designs this reference is essentially concerned with the legislation that covers these rights. That is, the *Patents Act 1990*, the *Trade Marks Act 1995*, the *Designs Act 1906* and the regulations relevant to this legislation. As the designs legislation is currently in the process of transition with a new act likely to come into effect either late in 2001 or early 2002, ACIP will consider and refer to the current design legislation more in principle rather than detail.

The purpose of this Issues Paper is to stimulate public discussion on the issues to be examined in this reference. That is, *to consider and report on whether some practices and procedures, including administrative procedures, to obtain, defend and enforce intellectual property rights relating to patents, trade marks and designs in Australia are appropriate to be referred to the Federal Magistrates Service.* Accordingly, ACIP has undertaken to circulate this Issues Paper and to consult with and seek input from interested parties. Once this input has been considered ACIP will prepare a report which they expect to submit to Parliamentary Secretary Entsch in late 2001.

Overall it is intended that this paper will stimulate debate on the issues raised in this paper and any other relevant issues not identified in this paper.

ACIP would value comments on the reference and seeks expressions of interest from interested parties indicating whether they wish to take part in consultation sessions or intend providing written submissions (or both).

**Written comments** may be made in electronic form or in hard copy and should be provided to the address below by **25 September 2001**. Unless marked confidential, submissions may be made public.

It is expected that consultations will comprise a one day seminar/discussion to be held in Canberra on Wednesday **3 October 2001**. It would be appreciated if you could advise your interest in taking part in **consultations by 10 August 2001**.

Please address your advice, comments, written submissions and any queries to:

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## **Introduction**

A strong intellectual property (IP) system is central to building a strong national innovation system which in turn plays an important role in the Australian economy. IP promotes research and development through helping to better capture returns from commercialising Australian ideas and products.

The emergence of knowledge based economies and globalisation has greatly increased the importance of IP to the point where effective protection and management of intellectual property is an integral part in both successfully commercialising innovation and contributing to national economic performance.

Effective enforcement of rights is a crucial aspect of the IP system. If owners of IP rights cannot enforce them in a speedy and cost efficient manner and with some certainty of outcome, then the IP system is significantly devalued. Businesses will only invest in developing innovations protected by IP rights if they are confident about the rights they hold and the efficient and effective outcomes of enforcement decisions relating to those rights. Furthermore, they need to be confident that the enforcement and testing of rights is undertaken within a reasonable time scale and at a reasonable cost to parties.

The costs of an ineffective enforcement system are not only borne by the commercial enterprises engaged in dispute, but the costs are also borne by society at large. An ineffective enforcement system is likely to result in a less than optimal level of innovation, a reduced transfer of technology and a consequent reduction in economic growth.

At a national level Australia must meet treaty obligations to provide enforcement procedures under the Trade Related Aspects of Intellectual Property (TRIPS) agreement. At a business level effective enforcement is essential to give owners of intellectual property rights the confidence to invest in the commercial development of the inventions or ideas covered by those rights. This confidence depends on business having some certainty about enforcement outcomes so that it can make rational decisions on longer term capital investment.

Enforcement procedures must also be efficient to minimise the cost and delay to business. Protracted enforcement action diverts time, money and resources which could be used more productively elsewhere in the business. Enforcement costs can represent a significant proportion of the resources that a business can commit to the development and commercialisation of an innovation.

The perception of enforcement procedures also influences the willingness of potential users to seek intellectual property rights. If people believe that rights cannot be protected or that protection will be costly and uncertain, they will be unlikely to use the intellectual property system.

Recent developments overseas have highlighted the growing emphasis on the need for effective enforcement procedures by business. In part this is due to the growing importance of intellectual property rights in commercial and technological development and

competitiveness. The increasing level of damages awarded in international and US infringement cases reflect this view of the importance and value of intellectual property rights.

Over the past 10 years there have been repeated calls from interest groups and through government reviews to have intellectual property (IP) matters heard by a Federal inferior court structure such as a federal magistracy. It is believed that this would provide a faster, cheaper and fairer alternative adjudication of IP disputes than the present Federal Court system.

### **Relevant legislation**

This paper is essentially concerned with the *Patents Act 1990*, the *Trade Marks Act 1995*, the *Designs Act 1906* and the regulations relevant to this legislation.

As the designs legislation is currently in the process of transition with a new act likely to come into effect either late in 2001 or early 2002, ACIP will consider and refer to the design legislation more in principle rather than detail.

### **Enforcement procedures**

The 'enforcement' of intellectual property rights is often thought to be synonymous with litigation, however, it encompasses a range of actions. There are a number of legal, administrative and commercial alternatives which can be used to enforce or defend an intellectual property right or to test its validity. These include pre-grant opposition procedures, warning off letters, commercial negotiations, licensing agreements, alternate dispute resolution mechanisms, mediation and litigation.

For the purposes of this paper, enforcement of intellectual property rights refers to actions prescribed in the patents, trade marks and designs legislation relating to pre and post registration adjudication actions, including administrative procedures, to obtain, defend and enforce intellectual property rights, or test their validity.

### **Related Reviews**

A number of reviews over the past 10 years have discussed and raised the prospect of a Federal inferior court hearing IP matters. Many of these reviews are currently being considered by Government.

The report of the Intellectual Property and Competition Review (IPCR) *Review of intellectual property legislation under the Competition Principles Agreement*, September 2000, recommended that the Federal Magistracy be used as a lower court for the patent system, particularly for matters relating to the Innovation Patent. This built on a recommendation made in an earlier review by the Advisory Council on Industrial Property, in its *Review of the Petty Patent System*.

The Government is currently considering its response to this and other recommendations of the IPCR's report.

The report of the Advisory Council on Intellectual Property (ACIP) *Review of Enforcement of Industrial Property Rights*, March 1999, made a number of recommendations aimed at reducing the uncertainty regarding the outcomes of patent enforcement actions.

The report proposes a number of changes to the enforcement system which encapsulate the general features of:

- providing better education and awareness programs to users and potential users of IP;
- an increased presumption of validity, including a statement in the *Patents Act 1990* that a granted patent is presumed valid, granting on the basis of 'the balance of probabilities', addressing the concept of 'fairly based', and revising disclosure requirements;
- improved appeal mechanisms and procedures for the review processes within IP Australia;
- increasing the specialisation of IP judges;
- providing for increased penalties for infringers; and
- introducing provisions relating the importation of infringing goods.

The Government is currently considering its response to the report.

The report of the Administrative Review Council (ARC), *Administrative Review of Patents Decisions* was tabled in the House of Representatives on 9 February 1999 and recommends substantial changes to the system of administrative and judicial review of decisions of the Commissioner of Patents under the *Patents Act 1990* (Patents Act).

The ARC report makes three recommendations:

- 1) that the existing system of review of patent decisions be retained pending determination of the structure and procedures of the Administrative Review Tribunal (ART);
- 2) that a number of patents decisions (not currently subject to merits review) should be subject to merits review by the Administrative Appeals Tribunal (AAT), and;
- 3) that a number of decisions relating to the registration and discipline of patent attorneys, (not currently subject to merit review) should be subject to merits review by the AAT.

The Government is currently considering its response to the ARC's report.

The Industrial Property Advisory Committee (IPAC) report, *Practices and Procedures for Enforcement of Industrial Property Rights in Australia*, March 1992.

The IPAC review focussed on litigation and court procedures and identified a number of potential improvements to court procedures aimed at reducing the cost and delay associated with industrial property litigation. Many of the IPAC recommendations have been considered by the courts when formulating changes to procedures for their industrial property lists. Further changes to court procedures which have arisen from broader reviews of the legal system have overtaken other IPAC recommendations.

## ***The current jurisdiction system for patent, trade mark and design rights.***

### **Civil proceedings**

As a general rule civil proceedings under the patent, trade mark and design statutes may be commenced in a 'prescribed court' defined to mean the Federal Court or the Supreme of a state or territory. These proceedings include:

- actions for non-infringement declarations
- actions for the rectification of the designs or trade mark registers or for the revocation of a patent.

Proceedings may be transferred between prescribed courts and their jurisdiction is exercised by a single judge.

Infringement proceedings may be instituted in any court, whether prescribed or not, as may proceedings in respect of unjustified threats.

An appeal lies in any of these proceedings to the Full Court of the Federal Court or, by special leave, directly to the High Court.

### **Criminal proceedings**

Under the patents, trade mark and designs legislation prosecutions are specifically prohibited from being commenced in the Federal Court and must therefore be initiated in a state court.

### **Decisions of Administrative Bodies**

Under the patent trade marks and designs legislation, administrative bodies such as the Commissioner of Patents are empowered to make various decisions as to the creation, subsistence and compulsory licensing of rights as well as on matters such as the right to intervene or the extension of time limits.

Where appeals are provided from these decisions, they lie to the Federal Court and in turn with leave to the Full Court of the Federal Court.

The statutes also confer on the Administrative Appeals Tribunal (AAT) the power to review certain of the decisions. See *Patents Act 1990* s 224, *Trade Marks Act 1995* ss 175, 180, 224, 227 and *Designs Act 1906* s 40(K). The role of the AAT is to review the merit of decisions, and not to adjudicate rights.

Any decision of an administrative character may be reviewed by a judge of the Federal Court under the Administrative Decisions (Judicial Review) Act 1977 (Cth) under one of the grounds for review set out in ss 5-7. Judicial review may also be sought in the same court under s 39B of the Judiciary Act 1903 (Cth).

## ***Nature and objectives of the Federal Magistrates Service***

The legislation to establish the Federal Magistrates Service, the *Federal Magistrates Act 1999* and *Federal Magistrates (Consequential Amendments) Act 1999* received royal assent on 23 December 1999.

The Federal Magistrates Service was established to deal with a range of less complex federal disputes that would otherwise go to the Federal Court or Family Court of Australia. It is designed to provide a quicker, cheaper option for litigants and is intended to ease the workload of both the Federal Court and the Family Court. The Federal Magistrates Service has developed procedures which aim to be as streamlined and as user-friendly as possible, reducing delay and cost to litigants.

The Government has appointed 16 Federal Magistrates including the Chief Federal Magistrate. The Federal Magistrates are located in all states including some located in regional centres. Each magistrate conducts regular circuits to regional areas throughout their state and hears cases using video and audio conferencing, where required.

One of the main functions of the Federal Magistrates Service is to deal with less complex family law matters. This is intended to take pressure off the Family Court and, by taking over work that would otherwise need to be done by Family Court judges, should also help ease delays for litigants in the Family Court. It is not intended to take away federal work currently performed by State and Territory courts. State magistrates will continue to deal with a range of federal matters, including some family law.

The widening jurisdiction of the Federal Court has led to an increasing number of routine matters coming before that Court. This has the effect of diverting judicial resources from more complex areas of the law. Having the Federal Magistrates Service deal with some of the less complex cases means a better use of judicial resources and, again, less cost for litigants.

### ***Key feature of the system***

A key feature of the system is that federal magistrates are not to become tied up with complex matters. Their workload is intended to be characterised by high volume and low complexity. For this reason, areas of law seen as relatively complex have not been considered as suitable for federal magistrates.

### ***Current Jurisdiction***

The jurisdiction of the Federal Magistrates Service is concurrent with that of the Family Court and the Federal Court – there is no jurisdiction that is solely that of the Federal Magistrates Service. This means that more complex matters filed in the Federal Magistrates Service can be transferred to the Federal or Family Court (whichever has jurisdiction). Similarly, there are provisions for transfer from the superior courts to the Federal Magistrates Service of less complex matters within the Federal Magistrates Service's jurisdiction.

The Federal Magistrates Service is currently able to deal with less complex disputes arising under the following provisions:

- Divisions 1 and 1A of Part V of the Trade Practices Act 1974, being the consumer protection provisions, with power to award damages up to a maximum of \$200,000;
- matters arising under the Bankruptcy Act 1966;
- applications made under the Administrative Decisions (Judicial Review) Act 1977;
- appeals from the Administrative Appeals Tribunal which are transferred to the Federal Magistrates Service by the Federal Court; and
- unlawful discrimination matters under the Human Rights and Equal Opportunity Commission Act 1986.

The main areas of family law in which the Federal Magistrates Service exercises jurisdiction are:

- applications for dissolution of marriage;
- family law property disputes where the property in dispute is worth less than \$300,000, or property disputes worth more than this with the consent of the parties;
- parenting orders providing for the residence of a child, contact, maintenance and/or specific issues;
- enforcement of orders made by either the Federal Magistrates Service or the Family Court,
- location and recovery orders regarding children, as well as warrants for the apprehension or detention of a child;
- determination of parentage and recovery of child-bearing expenses; and
- matters arising under Child Support legislation.

While other areas of jurisdiction will be considered from time to time for the Federal Magistrates Service, it is evident that they need to involve matters of low complexity which do not warrant the attention of Federal or Family Court judges.

### *Appeals*

It will be possible to appeal final decisions of federal magistrates to either the Federal Court or the Family Court, depending on the nature of the case. As with decisions of judges, leave will be needed to appeal from interlocutory decisions.

To avoid adding an additional layer of judicial decision making leading to more costs and delay for litigants, an appeal from the Federal Magistrates Service will be to the full court of the Federal or Family Court. The Chiefs Justices of the Federal and Family Courts have discretion to allow such appeals to be heard by a single judge, and for it to be treated as a decision of the full court and any further appeal would be to the High Court (with special leave).

### ***Issues and/or problems with the current IP enforcement system***

The findings and recommendations of reviews into the patent, trade marks and designs systems and the enforcement of these rights over the past 10 years have highlighted a number

of constant issues and problems. The main themes have revolved around the need for a fast, fair, cheap and effective enforcement system that provides certainty via court decisions that are consistent and predictable. There have also been frequent requests for a mechanism which provides “a cheap, quick umpire’s decision” to resolve enforcement disputes.

The following problems and issues have been dealt with separately, however, they frequently overlap. Furthermore, the problems and issues may not be exhaustive nor should the potential solutions to these problems be constrained by current practice.

## Complexity

A key feature of the Federal Magistrates Service is that federal magistrates are not to become tied up with complex matters. Their workload is intended to be characterised by high volume and low complexity. For this reason, areas of law seen as relatively complex have not been considered as suitable for federal magistrates.

IP matters are a specialised area of law and they have generally been considered a complex area of law. However, as a concept, 'complexity' is relative to the expertise and experience of the parties involved. What may well appear to some to be complex, may not appear complex to those who have had previous experience or appropriate expertise in the subject area.

In addition, the concept of 'complexity' can be effected by the nature of the matters involved. Decisions that relate purely to administrative actions, such as an extension of time to undertake an action, are likely to be less complex or require the attention of the Federal Court. On the other hand, issues that involve detailed technical and/or legal aspects and may call into play other areas of IP including issues under the Trade Practices Act or the common law rights of passing off, are likely to be complex and unsuited for consideration by a federal magistrate.

## Issues:

*Intellectual property is a specialised area of law and one that is often considered quite complex. Are there areas of IP law that are less complex and that could be easily identified as being suitable matters to be heard by a federal magistrate?*

*If so, what areas of IP law and what provisions could be considered suitable?*

*Assuming some IP matters are suitable for consideration by federal magistrates, how should the following be addressed:*

- *standing of parties;*
- *representation of the parties;*
- *role of experts; and*
- *nature of evidence to be considered?*

*Are there any impediments (legal or otherwise) to the Federal Magistrates Service hearing some IP matters?*

## Workload

As noted, a key feature of the Federal Magistrates Service is that federal magistrates' workload is intended to be characterised by high volume and low complexity.

IP law has traditionally not been seen as an area of high volume, and it is certainly not so in comparison with some other areas of law such as family law.

In preparing its report, Review of Enforcement of Industrial Property Rights, ACIP collected data to provide an up to date overview of the enforcement system including case workloads. Data sources including the Federal Court of Australia, the State and Territory Supreme Courts, the then Australian Industrial Property Organisation (AIPO) and a selective survey of patent attorney and legal firms. The data covered patent, trade mark and design rights.

The data indicated that an increasing number of cases were being filed in the courts. This increase is due to growth in the number of registered rights. The level of litigation has remained about 0.03-0.04% of the total number of registered rights. To put this in perspective, in 1996 the number of cases filed in the Federal Court of Australia included 7 design cases, 29 patent cases and 59 trade mark cases.

The survey data also showed that most enforcement actions, including litigation, are settled by negotiation, through commercial agreements, or simply because one party had to withdraw due to cost. Some of the survey responses suggest that less than 10% of cases filed are decided by the courts.

Estimates suggest that up to 0.3% of patent, trade mark and design property rights may become involved in some form of enforcement action. It is important to note that these figures are only indicative and are based on court statistics and the survey of legal and patent attorney firms. In other words, these figures only indicate the percentage of rights where some "formal" action has been taken.

Despite the relatively small numbers involved, enforcement is a critical element of an effective intellectual property system. It also has important implications for the success or survival of many companies.

It is reasonable to assume that cases involving intellectual property will continue to increase in future, reflecting the importance of knowledge and intangible assets in economic and social activity.

### **Issues:**

*As the number of registered IP rights is increasing it is expected that the number of disputes, including court actions can be expected to rise. It also appears that IP enforcement actions take many forms, and that a workload measure taken from the number of 'formal' court actions is only a partial indicator of the underlying problem.*

***Should workload and relative complexity be the overriding factors in determining what jurisdictions the Federal Magistrates Service considers?***

***Should adverse impacts on innovation and economic development be influencing factors in determining suitable matter for federal magistrates' consideration? If so, to what extent?***

***Should intellectual property become a priority matter for the federal magistracy?***

Time and cost of proceedings

The inherent threshold costs of litigation represents a barrier for many intellectual property owners seeking to enforce their rights and to others who might wish to test those rights. During the course of a number of IP reviews, many IP owners have asked for enforcement mechanisms that are better matched to the value of their intellectual property or to the remedies which are available.

The IPCR review noted that, a major concern of submissions to the Committee was the cost and complexity of the court system, particularly for SMEs....."Of more concern is the cost and complexity of enforcing industrial property rights, which continue to be a problem for many users. Dispute resolution mechanisms are time consuming and expensive, and discourage firms from taking enforcement action. For example, one engineering firm has stated that it costs on average \$250 000 to prosecute a claim for patent infringement. If intellectual property owners cannot enforce them because of cost and complexity, the intellectual property system serves no useful purpose. This is an inhibiting factor on commercial activity, which reduces competition".

The ACIP enforcement report survey data showed that most enforcement actions, including litigation, are settled by negotiation, through commercial agreements, or simply because one party had to withdraw due to cost.

The ACIP report also noted that the high cost of litigation might cause the parties involved in a dispute to seek an out of court settlement. However, out of court settlement might be less likely if the owner of the right is a small enterprise but the alleged infringer can easily carry the costs of litigation, and sees commercial advantage in doing so.

The combination of time and cost can be a powerful factor in deciding the outcome of IP disputes - the more protracted the dispute the greater the cost to parties. Deliberately delaying the dispute process can work to the advantage of the party with the greater financial strength.

**Issues:**

***The cost of IP enforcement action is clearly an inhibiting factor for users of the IP system. It has been suggested in recent IP reviews that costs and time delays could be reduced if federal magistrates had jurisdiction to hear some IP matters.***

*Are there likely to be significant savings in time and cost of proceedings, particularly as compared to the current system, if federal magistrates heard IP matters?*

*Bearing in mind the factors of cost and time, what appellate structure would be appropriate if federal magistrates were to hear some IP matters?*

*Would it be feasible, practical or desirable to appoint a federal magistrate with IP expertise and or experience to hear nominated IP matters in all or any state or territory of Australia?*

## IP Expertise

Previous reviews on enforcement of IP have queried whether judicial decision-makers appointed to hear IP matters have had the appropriate level of knowledge, expertise and experience to deal with such matters. The query has largely arisen in recognition that IP law is specialised and can be very complex, particularly for those with limited IP exposure. In addition, as the workload has not been overly large, judicial decision-makers may not necessarily have had sufficient exposure to IP matters in the past to enable a build up of expertise. Furthermore, IP is a dynamic area of law, particularly in relation to copyright, and this has added to the difficulty of attaining appropriate IP expertise.

The problem has tended to lessen with the practice of courts scheduling cases according to the relevant expertise of judicial decision-makers. However, businesses need to be confident that the judicial system will deliver predictable and consistent findings that are fair and just. Appointing a judicial decision-maker with IP expertise and experience to hear IP cases has the potential advantages of ensuring these outcomes.

### Issues:

*What would be deemed a relevant level of IP expertise and or experience to enable a Federal Magistrate to hear certain IP matters?*

Decisions that are fair, just, certain and consistent.

Ideally the adjudication system for the testing of IP rights should be fast, cheap and predictable and the outcomes of enforcement actions should be fair, just, and independent of the financial strength of the parties to the dispute.

Expensive, time consuming or unfair dispute resolution mechanisms will discourage businesses from taking enforcement action. This will discourage them from using the IP system and the nation will lose out on the benefits the system should produce. In addition, complex and costly enforcement procedures impose a burden on society, given the opportunity costs of tying up highly skilled, creative people and other resources in a largely unproductive activity.

The Federal Magistrates Service was designed to provide a quicker, cheaper option for litigants and it is intended to ease the workload of both the Federal Court and the Family Court. Furthermore, its streamlined and user-friendly procedures are designed to reduce delay and cost to litigants.

**Issues:**

*Is it likely that the Federal Magistrates Service will provide fairer and faster adjudication of IP matters for all parties independent of the financial strength of the parties to the dispute?*

*Is it likely that the Federal Magistrates Service will provide a quicker and cheaper option for litigants?*

**Conclusion**

As stated at the beginning of this paper, its purpose is to stimulate public discussion on the issue of extending the jurisdiction of intellectual property matters, namely patent, trade mark and design rights, to the Federal Magistrates Service. ACIP hopes that the issues raised are not considered to be conclusive or exhaustive and that this paper may serve to generate other relevant issues (not already identified in this paper) for discussion.

Furthermore, ACIP hopes that the potential solutions to identified problems are not constrained by current practice.