

**Submission to the Advisory Council on Intellectual Property
in response to its Discussion Paper**

**Should the Jurisdiction of the Federal
Magistrates Service be Extended to Include
Patent, Trade Mark and Design Matters?**

**Intellectual Property Research Institute of Australia
(IPRIA)**

September 2002



IPRIA — Submission to ACIP on whether the Jurisdiction of the Federal Magistrates Service should be Extended to Include Patent, Trade Mark and Design Matters

This submission was prepared by the following people:

- **Eloise Dias**, *Research Assistant, IPRIA*
- **Professor Andrew Christie**, *Director of IPRIA*

Contact Details

The contact for this Submission is:

Professor Andrew Christie, Director, IPRIA

Phone: (03) 8344 6201

Email: a.christie@unimelb.edu.au

Intellectual Property Research Institute of Australia

Law School Building

University Square

University of Melbourne VIC 3010

Australia

Phone: + 61 3 8344 1127

Facsimile: + 61 3 9348 2358

WEBSITE: www.ipria.org

Introduction

This submission consists of two parts:

- (1) A survey of literature regarding specialist patent courts in existence in other jurisdictions and the effectiveness of those courts as evidenced by qualitative and (where available) quantitative evidence; and
- (2) A survey of the literature and empirical data (where available) on the use of Alternative Dispute Resolution ('ADR') for patent, trade mark and design disputes in both Australia and overseas.

IPRIA notes a scarcity of comparative empirical data and it is for this reason that this paper does not engage unduly in statistical analysis. Similarly, IPRIA notes that it does not possess practical exposure to the international jurisdictions or ADR mechanisms discussed here. Rather, this paper seeks to inform others of the available literature on these topics and to summarise any conclusions and recommendations available from those resources.

Executive Summary

IPRIA makes the following conclusions in relation to the *ACIP Issues Paper*:

(1) **Comparative analysis of specialist IP courts:**

- The survey of the available literature reveals a paucity of qualitative and quantitative comparative data in the area of IP specialist jurisdictions.
- IPRIA's investigation suggests that there are generally mixed views about the success of specialist courts. That is, the data is inconclusive as to whether specialist courts are desirable or necessary.
- It is rare to find commentary that decisively supports the establishment of specialist tribunals without noting disadvantages.
- IPRIA suggests that more empirical and comparative data is needed to properly evaluate the success of specialist patent courts and whether these are suitable for comparison with the Australian context.

(2) **ADR and patent, trade marks and designs:**

- IPRIA concludes that ADR processes are increasingly being recognised as worthwhile mechanisms in the resolution of disputes, including, albeit to a lesser extent, IP disputes.
- Such processes may be appropriate for IP matters but, at this stage, there is not enough qualitative data to indicate that they are more appropriate than litigation in the court system.
- Court-annexed ADR schemes are presently in use in Australia and exist in both the Federal Court of Australia and the Federal Magistrates Service, although the former presently has more established mechanisms while the latter are in the relatively early stages of development since the FMS commenced in 1999.

Part A. Comparisons with Specialist IP Courts in other Jurisdictions

1 *The United Kingdom*

Two specialist patent courts in the UK

The workings of the UK patent litigation system are noteworthy for the current inquiry because of the presence of two specialist patent courts.¹ The **Patent Court of the High Court** is a civil and senior court, and has heard patent actions since well before the Statute of Monopolies in 1624.² It typically handles more complex cases. The **Patents County Court** is a relatively new innovation, having been set up in 1991 to provide an alternative to the High Court in response to perceived problems of cost, delay and complexity³ which were seen to be making access to justice difficult for smaller enterprises.⁴

The biggest **innovations** of the Patents County Court were as follows:

1. the requirement for an initial detailed statement of case from the parties setting out all the facts, matters and arguments relied on to narrow the issues in dispute and promote settlement;
2. extended rights of audience to include patent agents (compared with the High Court where the right of audience is limited to barristers instructed by solicitors);
3. a faster procedure from commencement to trial (eg discovery is by permission on a showing of need); and
4. a review of the case at an early stage in the form of a preliminary consideration before the judge.⁵

Although provision is available for the Lord Chancellor to impose a financial ‘cap’ on damages sought in the Patents County Court, this power has not been exercised.⁶ Hence,

¹ The UK Patent Office is another available forum for dispute resolution although it isn’t widely used, perhaps due to the limited forms of relief it offers: see Andrew Webb, ‘Patent Litigation in the UK — The New Patents County Court’ (1991) 6 EIPR 203, 203.

² Fry Heath & Spence, UK Patent Litigation < <http://www.fhs.co.uk/courts.htm> > at 19 September 2002. See generally Ladas & Parry, UK Patent Litigation, <http://www.ladas.com/Litigation/ForeignPatentLitigation/UK_Patent_Litigation.html> at 19 September 2002.

³ Under the Chairmanship of Sir Derek Oulton Permanent Secretary to the Lord Chancellor, the Oulton Committee was established in October 1986 to consider reform of the patent litigation system and included representatives of the Lord Chancellor’s Department, the Department of Trade and Industry, the Confederation of British Industry and various associations representing patent practitioners as well as a number of interested individuals. Cost rather than speed was determined by the Committee to be the factor deterring use of the Patents Court for all but the biggest companies. The Committee recommended a second forum be established within the framework of the county court system for less expensive litigation. See Andrew Webb, ‘Patent Litigation in the UK — The New Patents County Court’ (1991) 6 EIPR 203, 204–5.

⁴ See Lord Chancellor’s Department, *Access to Justice: Final Report* (1996) ch 19 [14]; *Chaplin Patents Holdings v Group Lotus* (The Times, 12 January 1994) per Sir Thomas Bingham MR; Fry, Heath and Spencer, ‘UK Patent Litigation’ <http://www.fhs.co.uk/courts.htm> at August 21 2002.

⁵ Nick Gardner, ‘Review of *The Patents County Court: A Report by the Intellectual Property Institute for the European Patent Organisation*’ (1997) 19 EIPR 162, 162. See also Georgina Richards, ‘The Patents County Court — Is It Really Working?’ (1996) 6 *Inventors World Magazine*.

⁶ The Oulton Committee recommended an initial cap of £100,000: Andrew Webb, ‘Patent Litigation in the UK — The New Patents County Court’ (1991) 6 EIPR 203, 205.

the UK court structure allows a free choice of forum for the patent plaintiff, regardless of the amount of money at stake or the region of jurisdiction.⁷

Evaluations of the Patents County Court: Cost and Speed

The creation of the Patents County Court was supported by industry but there are now **differing views** as to its success.⁸ The fact that the procedure of the court means that a matter can be brought to trial without there necessarily first being discovery has been regarded as a major cost advantage.⁹ On the other hand, the expense involved in providing detailed pleadings at an early stage in the proceedings may mean that costs are initially greater in the Patents County Court than the High Court.¹⁰ Fry Heath & Spence cite three recent Patents County Court cases run by that firm:

The first two cases went to a full trial and cost £34,000.00 and £50,000.00 respectively; the second was somewhat more expensive in view of a number of difficult issues involved. The third case was an application to revoke a competitor's patent, which settled the day before the Procedural Hearing. By that time, the plaintiff spent just under £8,000 and the patentee agreed to pay slightly over £7,000 back.¹¹ The result was probably the cheapest revocation of a Patent ever achieved.

The number of cases brought before the court has been decreasing, although this is also true of the Patents Court.¹² The **high numbers of successful appeals** from the Patents County Court has been commented on also: a few years after the Court commenced, the 'scoreboard' on appeals from the Patents County Court was nine to zero, that is: nine appeals allowed and zero dismissed (on different grounds from each other).¹³

The practical effect of the Patents County Court it seems has been to act as a competitor to the High Court and to force it to re-examine its procedure.¹⁴ Today, 'the High Court deals with cases at a speed that would have been unimaginable ten years ago',¹⁵ which is perhaps due to the decreased workload caused by the Patents County Court. The Patents County Court initially took about two years to consider and decide a case but has now reduced this to somewhere between 15 and 18 months.¹⁶ Meanwhile the High Court Patent Court once took five to 10 years to decide a case but has since reduced this timescale to between 12 and 18 months.¹⁷

⁷ 'The Patents County Court was recently established, as Judge Ford describes it, as a small claimants' court, not a small claims court ... [T]he Patents County Court is not a court of limited jurisdiction either as to the amount of money or as to the region of jurisdiction': Transcript, 'New Specialized Patent Court in England', Fourth Biennial Patent System Major Problems Conference, (1994) 34 *IDEA — Journal of Law and Technology* 103, 104.

⁸ Lord Chancellor's Department, *Access to Justice: Final Report* (1996) ch 19 [15].

⁹ Although this 'front loading' of costs means that it can be more expensive to initiate proceedings in the Patents County Court than the High Court: see Australian Law Reform Commission, *Designs*, Report No. 74 (1996) [13.11] and fn 27.

¹⁰ Andrew Webb, 'Patent Litigation in the UK — The New Patents County Court' (1991) 6 *EIPR* 203, 207.

¹¹ *Ibid.*

¹² *Ibid.*

¹³ Transcript, 'New Specialized Patent Court in England', Fourth Biennial Patent System Major Problems Conference, (1994) 34 *IDEA — Journal of Law and Technology* 103, 106.

¹⁴ Fry Heath & Spence, UK Patent Litigation < <http://www.fhs.co.uk/courts.htm> > at 19 September 2002.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ *Ibid.*

At an Enforcement Roundtable Conference in July 2002, Justice Laddie, one of the three Principal Patent Judges in the Court, said that although the speed of the courts have been improved, the problem of costs has not yet fully been resolved.¹⁸ The case of *Pavel v Sony Corporation*¹⁹ highlights this deficiency. In that case, which was an appeal from the Patents County Court to the Court of Appeal, Mr Pavel sought an order overturning a ruling of the Patents County Court that his patent was invalid. The costs of the hearing before the Patents County Court were estimated to be in excess of two million pounds (Mr Pavel was granted Legal Aid to pursue the action). In the judgment, the Lord Justices of the Court of Appeal strongly criticised the conduct of the case by both parties before the Patents County Court and commented that, due to the excessive elaboration of the case, the trial of the matter had become lengthy and costly. It was also suggested that some alteration in procedure would be necessary if the purposes of the Patents County Court were to be achieved.

However, the case can also be said to support the view that, although the procedure from commencement to the preliminary consideration may **frontload the cost** of litigation in the Patents County Court, there are opportunities for reducing overall cost and time of patent litigation.²⁰ Whether these opportunities are exploited depends on the users of the Court, who have the opportunity to promote speed and efficiency or to challenge (by appeals and delays) any attempt by the judge to make use of time- and cost-saving mechanisms.²¹

In **summary**, there are generally mixed views about the success of the Patents County Court:

- One view is that the promised cost and timesavings have not always eventuated because of the expense involved in providing detailed pleadings at an early stage of proceedings.²²
- There is also the view that, despite the informal and streamlined rules of practice aimed at creating a ‘poor man’s court’, parties with substantial funds have still taken a ‘full team’ approach to litigation and have not exercised the option of the patent agent’s right of audience.
- The view has also been expressed that the Court has added simply another adversarial layer to the litigation process.²³
- Some commentators have stated that there are opportunities for reducing overall cost and time of patent litigation but whether these opportunities are exploited depends on the users and the intervention of the trial judge.²⁴
- In his Final Report on *Access to Justice* in the UK, Lord Woolf stated that in his view there was a pressing need for both the Patent Courts, and more especially the Patents County Court, to develop procedures which go further than existing ones in providing rapid resolution of disputes, with a strict timetable and a trial limited in

¹⁸ UK Patent Office, Enforcement Roundtable, 8 July 2002, Harmsworth House, London, <<http://www.patent.gov.uk/about/ippd/notices/enforce.htm>> at 20 September 2002.

¹⁹ Unreported, (The Times, 22 March 1996).

²⁰ Andrew Webb, ‘Patent Litigation in the UK — The New Patents County Court’ (1991) 6 EIPR 203, 210.

²¹ Ibid.

²² Ibid. See also Transcript, ‘New Specialized Patent Court in England’, Fourth Biennial Patent System Major Problems Conference, (1994) 34 IDEA — Journal of Law and Technology 103, 105.

²³ D Egan, ‘Design Fault’ (1993) *Bulletin* 44, 47.

²⁴ Andrew Webb, ‘Patent Litigation in the UK — The New Patents County Court’ (1991) 6 EIPR 203.

time, and a fixed budget for costs which would enable smaller firms to compete on a more level footing with larger companies.²⁵

Appendix A includes statistics from the Patents Court of the High Court and the Chancery Division. Figures for the Patents County Court were not available.

2 Germany

The Patent Court System in Germany

Germany has traditionally established courts that have specialised in IP cases. The establishment of such courts has technically been effected by statutory concentration of jurisdiction to a small number of specific **District Courts** (*Landgerichte*) as the courts of first instance where the plaintiff must file their complaint.²⁶ For litigation based on the German *Patent Act*, s 143 rules that District Courts are responsible for handling these litigation matters, irrespective of the claims value.²⁷ Furthermore, the German *Bundeslander* (regional states) have the right to allocate patent disputes in districts belonging to several District Courts to be dealt with by only one especially designated court.²⁸ The governments of the German *Bundeslander* have taken advantage of this provision, which is why only a few of the German District Courts handle patent litigation cases.²⁹ The three judges of the specialised chambers of the District Courts are professional judges.

A further speciality in Germany is the so-called **dual system** in patent matters whereby questions of patent infringement are strictly separated from questions of patent validity.³⁰ Therefore, if validity is challenged, the invalidation action (nullity action) against a patent must be filed with a different court, namely the **Federal Patent Court** in Munich.³¹

The Federal Patent Court renders decisions on appeals against decisions of the Patent Examiners and of the Patent, Trademark, Utility Model and Semiconductor Topographies Divisions of the German Patent and Trademark Office.³² It also hears actions for the grant of a compulsory licence or a declaration of nullity or forfeiture of patents and, for a limited time (from January 2002 to 2004), the Court is responsible for the decisions on the oppositions launched against a patent granted by the German Patent and Trademark Office.³³

Features of the Federal Patent Court

²⁵ 'Woolf Report', Lord Chancellor's Department, *Access to Justice: Final Report* (1996).

²⁶ Dr Paul Tauchner, 'Specialist IP Courts in Germany' <http://www.vossiusandpartner.com/eng/publication/pub-specialist-ip-courts.html> at 19 September 2002.

²⁷ *Ibid.*

²⁸ *Ibid.*

²⁹ *Ibid.*

³⁰ Ladas & Parry, Patent Litigation in Germany, <http://www.ladas.com/Litigation/ForeignPatentLitigation/Germany_Patent_Lit.html> at 19 September 2002.

³¹ *Ibid.*

³² Office for Public Relations of the Federal Patent Court, *The Federal Patent Court of the Federal Republic of Germany* (2002) 5.

³³ *Ibid.*

The main innovative features of the German Federal Patent Court are as follows:

1. **No jurisdiction for infringement actions:** the Federal Patent Court (as well as the German Patent and Trademark Office and the Federal Office for Plant Varieties) is competent only for cases regarding the grant or the refusal of IP rights, including patent, trademark, and industrial design rights.³⁴ In addition, the Court may nullify a patent or other right. Decisions on infringement are exclusively dealt with by the civil courts of general jurisdiction and in such a suit, the civil court is not authorised to challenge the validity of the rights granted.³⁵
2. **Technical experts as professional judges:** approximately one half of the judges of the Federal Patent Court are qualified in science or engineering and the other half are qualified in law.³⁶ The technical judges are not 'lay judges' but rather they have all the rights and duties of a professional judge, including lifetime tenure. A technically qualified member of the Court must be an expert in one branch of technology.³⁷ He or she must have passed the requisite university examinations, have at least five years' practical experience and must have acquired the necessary legal knowledge.³⁸
3. **Boards of the Court:** the Court performs its functions through 28 boards including: nullity boards, a juridical board of appeal, technical boards of appeals, and a board of appeal for utility models and semiconductor chip protection.³⁹ The composition of a given board seems to reflect the types of cases it deals with. Thus, the 13 Technical Boards of Appeal have a panel of four judges of whom the presiding judge and two associate judges are technically qualified and only one member is legally qualified.⁴⁰ By contrast, the nine Trademark Appeal Boards as well as the Juridical Board of Appeal are composed exclusively of legally qualified members.
4. **Allocation of cases by a special independent body of judges (*Präsidium*):** a special independent body of judges, consisting of the President of the Court and 10 members (at least one of whom must be legally qualified), annually settles in advance the allocation of the appeals and actions to be dealt with by the Court to the different panels.⁴¹
5. **Rules of Procedure:** the procedure of the Court is governed by special legislation and, in addition, certain provisions of the Judiciary Act and the Code of Civil Procedure apply *mutatis mutandis*.⁴²
6. **No requirement for professional representation:** any party may act in court personally or be represented by an authorised representative.⁴³ For professional

³⁴ Office for Public Relations of the Federal Patent Court, *The Federal Patent Court of the Federal Republic of Germany* (2002) 6. See Ladas & Parry, Patent Litigation in Germany, <http://www.ladas.com/Litigation/ForeignPatentLitigation/Germany_Patent_Lit.html> at 19 September 2002.

³⁵ Ibid.

³⁶ Ibid 7.

³⁷ Ibid 8.

³⁸ Patent Law ss 65, 26.

³⁹ Office for Public Relations of the Federal Patent Court, *The Federal Patent Court of the Federal Republic of Germany* (2002) 9.

⁴⁰ Ibid 14.

⁴¹ Ibid 15.

⁴² Ibid 16.

⁴³ Patent Law s 97. However, parties who have neither a domicile nor an establishment in Germany may only take part in proceedings before the Court if they have appointed a patent attorney or an attorney-at-law

representation, attorneys-at-law, patent agents and members of patent departments of enterprises qualified as patent agents and also holders of special permits (patent engineers) are admitted.

7. **Oral hearings:** the Boards of Appeal may, in principle, decide a case without oral hearing. A hearing only takes place if one of the parties so requests, evidence is to be taken or the Court considers it appropriate.⁴⁴ In practice, however, most cases are decided on the basis of a hearing either because the parties submit a corresponding request or because the Court considers it expedient to clarify the issues.⁴⁵

Evaluations

IPRIA was unable to gather significant evidence evaluating the performance of the Federal Patent Court in Germany. In terms of specialist judges, the President of the Federal Patent Court has recently commented that the permanent co-operation of legally and technically qualified members in the boards of the court has proved successful: 'It demands a high degree of receptiveness and readiness for understanding from the members of the boards. These factors influence the quality of the decisions of the Federal Patent Court considerably.'⁴⁶

In terms of caseload, the Federal Patent Court received about 3750 new cases in 2001, among which there were approximately 3150 new main proceedings (suits and appeals).⁴⁷ However, it was reported that limited use is made of proceedings because of the costs of litigation, although decisions are said to be reached relatively quickly.

3 United States

The US Court of Appeals for the Federal Circuit

The Federal Courts Improvement Act of 1982 merged the U.S. Court of Customs and Patent Appeals and the U.S. Court of Claims to form the U.S. Court of Appeals for the Federal Circuit ('CAFC').⁴⁸ The CAFC was established as a specialist court to hear patent appeals from US District Courts and the Patent and Trademark Office.⁴⁹ The Court has jurisdiction over patents and related areas of law, including trademarks. The Court is not composed of judges expert in technology but rather employs technical experts to review every opinion before it is published.⁵⁰

residing in Germany to be their representative (a so-called 'domestic representative'): Patent Law s 26, Trademark Law s 96.

⁴⁴ Patent Law s 78; Trademark Law s 69.

⁴⁵ Office for Public Relations of the Federal Patent Court, *The Federal Patent Court of the Federal Republic of Germany* (2002), 18.

⁴⁶ Office for Public Relations of the Federal Patent Court, *The Federal Patent Court of the Federal Republic of Germany* (2002) 15. For further statistics on the workload in the Federal Patents Court between 1997 and 2001, see the Federal Patent Court website: <<http://www.bpatg.de/>>.

⁴⁷ Office for Public Relations of the Federal Patent Court, *The Federal Patent Court of the Federal Republic of Germany* (2002) 2.0.

⁴⁸ Charles W Adams, 'The Court of Appeals for the Federal Circuit: More than a National Patent Court' (1984) *Missouri Law Review* 43, 43-44.

⁴⁹ Ibid.

⁵⁰ While currently only three of the twelve Court of Appeals judges have technical backgrounds, the bench obtains intensive practical exposure to technologically complex cases through the large proportion of

IPRIA — Submission to ACIP on whether the Jurisdiction of the Federal Magistrates Service should be Extended to Include Patent, Trade Mark and Design Matters

Virtually all intellectual property disputes in the US are litigated before Federal Courts.⁵¹ The highest court is the Supreme Court, below which exist 13 circuit courts, 12 of which cover various territories in the United States and one of which (the Court of Appeals for the Federal Circuit) has exclusive jurisdiction over patent and many intellectual property and trade appeals.⁵² Federal courts have automatic subject-matter jurisdiction and, in patent and copyright disputes, this subject matter jurisdiction is exclusive of state courts.⁵³ Therefore, such cases must be heard by federal courts.

Caseload and speed

From July 1997 to June 1998, 1,996 patent-related cases were filed in the United States Federal District Courts, of which only 107 cases, 5.4% of the total, went to trial (compared to 3.0% for all civil cases filed in the Federal District Courts).⁵⁴ This indicates that the majority of patent cases are settled prior to going to trial. The reasons behind this may include the high amount of damages, the unpredictability of jury verdicts, the high cost of attorney fees, and the increase in cost the longer a case is pending.⁵⁵ Out of the 107 cases that resulted in a trial, 62 (about 58%) had a jury trial.⁵⁶

The median for patent case-pending periods is eight months, which is the same as the median for all civil cases.⁵⁷ The median for cases that resulted in trial is twenty-nine months (as compared with 18 months for all civil cases).⁵⁸ Although emphasising that it is difficult to give estimates on lawsuit timeframes, Merchant & Gould stated that it is not unusual for discovery in a patent case in the US to last between one and two years while an additional six to eight months may be needed to have to case tried.⁵⁹ The International Chamber of Commerce has also stated that the main problem with US patent litigation is the labour-intensive discovery system. It estimates that costs of over US\$1m in discovery costs to each party are not uncommon and states that ‘many Federal District Court judges seem reluctant to limit this discovery of documents and people, so regularly the two sides exchange literally millions of sheets of paper and a large number of people then give depositions.’⁶⁰

intellectual property cases on its calendar: see LeRoy L Kondo, ‘Untangling the Tangled Web: Federal Court Reform Through Specialization for Internet Law and other High Technology Cases’ (2002) *UCLA Journal of Law and Technology* 1.

⁵¹ Ladas & Parry, Court Litigation, <<http://www.ladas.com/Litigation/IPLitigation/IPLiti02.html>> at 20 September 2002.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Setsuko Asami, ‘Japan- US Patent Infringement Litigation Comparison: A Visit to the United States Court of Appeals for the Federal Circuit’ <<http://www.law.washington.edu/casrip/>> at 20 September 2002.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Merchant & Gould, A Guide to US Patent Litigation, <http://www.merchant-gould.com/news/guides/us_patent_litigation/patlit_part4.html> at 20 September 2002. This firm also estimates that an appeal to the Federal Circuit normally takes about eight months to one year.⁵⁹

⁶⁰ International Chamber of Commerce, Commission on Intellectual and Industrial Property, *The Reduction of Patent Costs*, 30 January 1997 <http://www.iccwbo.org/home/statements_rules/statements/1997/patent_costs.asp> at 20 September 2002.

Further statistics of caseloads and time intervals of patent cases in the US District Court are contained in **Appendix B** as well as numbers of appeals to the Court of Appeals of the Federal Court.

4 Summary

This survey of the available literature reveals, if anything, the paucity of qualitative and quantitative comparative data in the area of IP specialist jurisdictions. However, this cursory investigation also suggests that there are generally mixed views about the success of specialist courts: the data is inconclusive as to whether specialist courts are desirable or necessary.⁶¹ It is rare to find commentary that decisively supports the establishment of specialist tribunals without noting some of the disadvantages. More research is needed to properly evaluate the success of specialist patent courts and whether these cases are suitable for comparison with the Australian situation.

⁶¹ The ALRC concluded as much in its report on the *Designs* system in Australia: Australian Law Reform Commission, *Designs*, Report No. 74 (1996) [13.16].

Part B. Alternative Dispute Resolution and Patent, Trade Mark and Designs Disputes

1 Introduction

In its Discussion Paper, ACIP welcomed views on whether options such as alternative dispute resolution mechanisms (ADR)⁶² are viewed as viable alternatives in the enforcement of IP rights and whether there are opportunities or benefits to utilising or extending ADR mechanisms to the enforcement of IP rights. IPRIA supports such initiatives and has conducted a brief survey of information available on ADR as it pertains to IP dispute resolution.

IPRIA found that ADR is increasingly becoming an alternative to litigation.⁶³ The Commonwealth, States and Territories have to varying degrees enacted legislation designed to encourage ADR, including ADR that is facilitated by courts.⁶⁴ However, whilst becoming more prevalent in other areas of law, it is yet to be well utilised in the IP industry apart from domain name disputes.⁶⁵

The following outlines briefly the sorts of IP disputes that may lend themselves to ADR, as found from a survey of the literature. IPRIA notes that it does not have practical exposure or experience with ADR techniques and IP dispute resolution. Rather, the below statements reflect theoretical and anecdotal assertions garnered from the research.

2 What sorts of IP Disputes lend themselves to ADR?

Generally

- *It is not possible to generalise:* One would hesitate in offering guidance designed to match cases to dispute resolution processes. There is insufficient research to justify such a process as yet. Furthermore, which process is suitable for any given dispute will depend on a variety of factors including: the financial situations of the parties, the parties' desired timeframes and what the parties are actually seeking from the process.
- *'Bet your company' disputes:* the so-called 'bet your company' dispute is generally said to be particularly inappropriate for ADR.
- Two commentators state that parties should especially consider ADR (with the advise of counsel) when: (1) they have sufficient understanding of the case, either through

⁶² The National Alternative Dispute Resolution Advisory Council refers to ADR as 'processes, other than judicial determination, in which an impartial person assists those in a dispute to resolve the issues between them', this would include such processes as mediation, arbitration, conciliation, mini-trial, primary dispute resolution and combined or hybrid processes: see National Alternative Dispute Resolution Advisory Council, *ADR Terminology: A Discussion Paper* (2002) Part 3 and generally.

⁶³ See Australian Law Reform Commission (ALRC), *Review of the Adversarial System of Litigation*, Issues Paper 25 (1998), ch 3.

⁶⁴ *Ibid* [3.8]. See eg *Federal Court of Australia Act 1976* (Cth) s 53A; *Family Law Act 1975* (Cth) Parts II–III; *Courts Legislation (Mediation and Evaluation) Amendment Act 1994* (NSW).

⁶⁵ See .au Domain Administration Ltd (auDA) dispute resolution policy (auDRP) <<http://www.auda.org.au/policy/audrp/>> and the Uniform Dispute Resolution Policy (UDRP) <<http://www.icann.org/udrp/>>.

discovery or other means; (2) when it seems a dispute can or should be settled; or (3) when trial costs may be prohibitively high.⁶⁶

Patents

- Some commentators argue that patent disputes, especially those involving complex technological issues, are particularly well suited to ADR.⁶⁷ Patent cases often involve complex technology and have a tendency to consume a great deal of time, effort and expense. ADR allows the parties to choose their third party neutral based on expertise and provides a focused, limited and relatively quick procedure without the significant financial costs or delay associated with litigation.⁶⁸ It also avoids public disclosure of confidential trade secrets or other proprietary information.
- The UK Patent Office, in its quinquennial review, consulted various interest groups and found that, although there was a body of opinion that IP disputes are not as susceptible to ADR as some other types of disputes, there was also a general view that ADR could assist parties in resolving disputes, provided that the experts involved understood the matters at hand sufficiently.⁶⁹ The Patent Office recommended that it could be useful to promote a further form of ADR, such as a system would make use of both the expert knowledge of the Patent examiners and the services of experienced mediators.

Designs

- In its Report on *Designs* (no 74), the Australian Law Reform Commission recommended that, instead of establishing an industrial property court the government should focus on both procedural reforms and alternative dispute resolution.⁷⁰
- The Commission found from surveys and submissions that there was a strong demand in the design industry for alternatives to traditional litigation.⁷¹ The concern was seen to be greatest in the smaller sectors of the industry (seen to be most disadvantaged under the current system). However, the Commission was also aware of a view held by legal professionals that design disputes are inappropriate for resolution except in the courts. This view is not restricted to designs.⁷²
- Generally, however, the ALRC was advised that design disputes are well suited to certain forms of ADR, particularly mediation and early neutral evaluation.⁷³

Design matters often involve complex technical and commercial facts. In non-judicial forums these questions can be determined by an expert without the need to employ

⁶⁶ Scott H Blackmand and Rebecca H McNeill, 'Alternative Dispute Resolution in Commercial Intellectual Property Disputes' (1998) 47 *American University Law Review* 1709, 1710.

⁶⁷ *Ibid* 1721.

⁶⁸ Blackmand and McNeill state that the average patent arbitration rarely exceeds 12 to 15 months and often concludes within 6 months: *ibid* 1723.

⁶⁹ UK Patent Office, *Quinquennial Review of the Patent Office* (2001).

⁷⁰ Australian Law Reform Commission, *Designs*, Report #74 (1996) [13.16].

⁷¹ *Ibid* [13.59].

⁷² Eg, in the case of *Foster Wheeler Corp v Babcock & Wilcox Co*, 440 F Supp 897 (SDNY 1977) Judge William Conner, a former patent attorney, held that arbitration was inappropriate for the resolution of patent validity disputes.

⁷³ Australian Law Reform Commission, *Designs*, Report #74 (1996) [13.64].

costly expert witnesses. Design disputes often involve small claims for damages. ADR enables small companies and individuals with limited resources to protect and enforce their rights while minimising the formality, costs and delay often involved in protracted litigation.

- In terms of specific ADR mechanisms, the Commission recommended negotiation, mediation, early neutral evaluation and mini-trials.
- In regard to arbitration, the Commission found considerable dissatisfaction with arbitration due to perceived inflexibility and expense — in some cases, arbitration was reported to be more expensive than litigation and parties had to bear the administrative costs themselves.⁷⁴ The Commission did not recommend recourse to arbitration for parties requiring determination of their rights in designs since it may simply add a further layer of delay and costs.
- The Commission encouraged court referral of appropriate design cases to mediation, arbitration or independent assessment as an effective case management tool.⁷⁵

The benefit of court-annexed arbitration under schemes such as the *Courts (Mediation and Arbitration) Act 1991* (Cth) is that parties may register the award and enforce it with the authority and sanction of the Court. The Commission supports the increased use of court-annexed mediation and arbitration. There are also benefits in the exercise of judicial supervision over the timetable and conduct of proceedings to prevent abuse and unnecessary delay. Civil litigants see court-annexed arbitration as fairer and more satisfying than other settlement procedures.

- The Commission recommended that courts exercising designs jurisdiction should continue to develop and increase the use, where appropriate, of court-annexed arbitration and mediation mechanisms, although not in a mandatory way.⁷⁶

Trade Marks

- IPRIA notes that there is a paucity of literature discussing the use of ADR mechanisms specifically in the context of trade marks disputes.
- Two commentators have noted that, unlike patent and designs disputes, trade mark disputes typically present issues that do not require an understanding of technical or complicated subject matter and therefore may be suitable to ADR.⁷⁷ For example, parties may wish to have a trade mark expert involved.⁷⁸
- It can also be noted that many such cases involve parties in an ongoing business relationship, such as a franchise affiliation. In such situations, there may be a benefit in avoiding outright litigation, not only in terms of time and expense, but also in thereby avoiding adversarial and possibly antagonistic litigation damaging to the relationship.⁷⁹

⁷⁴ Australian Law Reform Commission, *Designs*, Report #74 (1996) [13.74].

⁷⁵ *Ibid* [13.53].

⁷⁶ *Ibid* [13.79].

⁷⁷ Scott H Blackmand and Rebecca H McNeill, 'Alternative Dispute Resolution in Commercial Intellectual Property Disputes' (1998) 47 *American University Law Review* 1709, 1726.

⁷⁸ *Ibid*.

⁷⁹ *Ibid*.

Conclusions

- IPRIA notes that there is a lack of empirical data on the use of ADR in IP disputes in Australia, as well as data on the efficacy of such uses.
- It cannot, therefore, be said with any certainty that ADR is of substantial benefit in resolving IP disputes, although this would seem to be the theoretical and anecdotal assertion put forward by most commentators and practitioners.
- IPRIA would recommend greater research in this area, possibly in consultation with the National Alternative Dispute Resolution Advisory Council.

3 ADR Mechanisms in the Federal Court compared with the Federal Magistrates Court

Australia federal courts and tribunals have long been involved in ADR development and utilised ADR processes. The Australian Law Reform Commission, in its 1998 review of the adversarial system in Australia, noted that the emphasis in federal courts has largely been upon mediation and conciliation processes rather than other ADR processes such as evaluation and arbitration.⁸⁰

Federal Court ADR

The Federal Court established an **Assisted Dispute Resolution** program in 1987. It is a court-annexed mediation program dealing with matters arising out of proceedings in the Court.⁸¹ Mediations are normally conducted by the Court's registrars who have been trained as mediators, although the Court can also facilitate qualified external mediation where the parties wish.

Non-consensual: Prior to 17 April 1997, the program was based upon parties consenting to mediation, however, from that date, s 53A of the *Federal Court of Australia Act 1976* (Cth) was amended to provide for **non-consensual mediation**.

Procedures: The procedures at a mediation conference are **flexible** and the parties and their legal advisers will have the opportunity to make procedural suggestions as the conference progresses.⁸² During the conference, the parties may break to consult with their legal advisers or may request an opportunity for discussion in the absence of the mediator.⁸³ Alternatively, they may wish to talk without anyone else being present or with only the mediator present. All discussions are conducted on a 'without prejudice' basis. At the mediation conference, parties are encouraged to speak for themselves, rather than depend upon their legal advisers. This helps to ensure that all the issues that are important to the parties are discussed.

Settlement: Many disputes are settled at the first conference. However, further conferences can be arranged if necessary. The parties may agree to provide additional information, such as expert advice, to assist at any subsequent conferences. In some cases, the agreement reached will involve the preparation and finalisation of documents

⁸⁰ ALRC, *Review of the Adversarial System of Litigation*, Issues Paper 25 (1998), ch 3 para [3.1].

⁸¹ Federal Court of Australia, *Annual Report 2000/01*, p 48.

⁸² Federal Court of Australia, Mediation <http://www.fedcourt.gov.au/community_info/mediation/med_index.html> at 20 September 2002.

⁸³ *Ibid.*

to which the parties have agreed.⁸⁴ Once these are prepared, the parties may choose to sign a consent order which, when also signed by a Judge, becomes a final order of the Court.⁸⁵

Costs: Mediation conferences conducted by Registrars of the Court attract a fee. Unless an order is made by the Court to the contrary, the fee must be paid by the applicant (the party that commenced the case against the other party).⁸⁶ If more than one conference is necessary, no additional fee is payable. If a mediation fee has been paid to the Court, but the dispute is not resolved, the fee to be paid for hearing the case in court is reduced by the amount of the fee which was paid for the mediation. No fee is payable to the Court if an external mediator is used.

Caseload: The Federal Court's Annual Report for 2000–01 quantifies the matters that have been referred to mediation and notes that the program has **proved popular**, with a total of 2030 matters referred to mediation since its commencement in 1987.⁸⁷ Of that total, 1360 were referred in the period 1996-97 to 200-01 (or an average of 272 per reporting year).⁸⁸ It notes that the majority of referrals have been in matters concerning trade practices, intellectual property, native title, taxation, workplace relations, bankruptcy and admiralty. Unfortunately, the Report does not cite statistics for each area and it is not clear whether this list is in ascending or descending order.

Settlement Rates: The settlement rates of cases referred to mediation since the program's commencement has **averaged 55%**.⁸⁹ The Report notes that this is not a conclusive indicator of the program's success or failure; for instance, many matters that do proceed to litigation after ADR do so with the issues better defined or on the basis of agreed facts settled by the parties with the assistance of the mediator.⁹⁰ These types of results also translate to savings in costs and time for the parties and the Court.⁹¹

Federal Magistrates Court

The Federal Magistrates Service was established by the Commonwealth Parliament at the end of 1999 and its jurisdiction includes family law and child support, administrative law, bankruptcy, consumer protection, human rights, privacy law and migration matters. Part 4 of the *Federal Magistrates Act 1999* (Cth) places a **positive obligation** on the Federal Magistrates Court to consider whether to advise the parties to proceedings about primary dispute resolution (PDR) processes. If the Court considers that a PDR process may help the parties to resolve that dispute, the Court must advise the parties to use that PDR process (s 23).

Primary Dispute Resolution: Section 21 of the Act **defines 'primary dispute resolution'** processes as 'procedures and services for the resolution of disputes otherwise

⁸⁴ Federal Court of Australia, Mediation <http://www.fedcourt.gov.au/community_info/mediation/med_index.html> at 20 September 2002.

⁸⁵ Ibid.

⁸⁶ Federal Court of Australia, Mediation <http://www.fedcourt.gov.au/community_info/mediation/med_index.html> at 20 September 2002.

⁸⁷ Federal Court of Australia, *Annual Report 2000/01*, p 48.

⁸⁸ Ibid.

⁸⁹ Ibid 49.

⁹⁰ Ibid.

⁹¹ Ibid.

than by way of the exercise of the judicial power of the Commonwealth, and includes: (a) counselling; (b) mediation; (c) arbitration; (d) neutral evaluation; (e) case appraisal; and (f) conciliation. Hence, it would seem that the ADR mechanisms currently available in the Federal Magistrates Court are somewhat broader than those used in the Federal Court, which focuses on mediation.

Procedure: PDR is provided by the Family Court Mediation Section and a number of different organisations in the community.⁹² A federal magistrate may also order a party to attend a PDR process on their first court date, which could be mediation at the Family Court Mediation Section or counselling, mediation, or conciliation at a community organisation.⁹³ The National Alternative Dispute Resolution Advisory Council (NADRAC) is currently working on a project designed to assist in the development of guidelines for the Federal Magistrates Service on whether matters are suitable for referral to PDR.⁹⁴ If a PDR process has been successful, the parties can file consent orders which will complete their court action. If not, the matter will proceed to trial.

Caseload and settlement rates: In terms of **caseloads**, 45 general federal law matters (that is, not family law matters) were ordered to mediation.⁹⁵ In terms of **settlement figures**, the Court's 2000–2001 Annual Report states that 32% of general federal law mediation cases were settled while 26% were not settled, 30% were continuing at the time and a small amount were finalised before mediation, discontinued or transferred.⁹⁶ See **Appendix D**. There were no statistics available with regard to costs in the Federal Magistrates Court.

Comparisons

IPRIA notes that more research, especially empirical data, is necessary before decisive comparisons can be made between the use and efficacy of ADR practices in the Federal Court and the Federal Magistrates Court. Tentative conclusions can be drawn from a brief survey of the literature.

The Federal Court of Australia has a **well-established ADR program** that is increasingly being utilised by parties before the Court, including parties to intellectual property disputes. However, it is not certain exactly what volume of the ADR referrals have concerned IP matters or whether the numbers of parties referring IP matters to ADR has fallen or risen despite the overall increase in the popularity of the Court's assisted mediation program. In comparison, the PDR program in the Federal Magistrates Service is in the relatively early stages of commencement and predominantly utilises and orientates its PDR services towards family law matters.

In terms of **procedure**, both Courts place a positive obligation on judges to consider and advise parties about ADR processes and to order, if necessary, that the parties undertake this process.

⁹² Federal Magistrates Service, 'Primary Dispute Resolution' <<http://www.fms.gov.au/pdr/html/introduction>>.

⁹³ See Federal Magistrates Service, Primary Dispute Resolution <<http://www.fms.gov.au/pdr/html/introduction.html>> at 20 September 2002.

⁹⁴ NADRAC, Criteria for ADR, <<http://law.gov.au/aghome/advisory/nadrac/criteria.htm>> at 20 September 2002.

⁹⁵ Federal Magistrates Service, *Annual Report 2000–2001*, p. 45.

⁹⁶ *Ibid.*

Lastly, in terms of **settlement rates** (see Appendices C and D) following mediation or other ADR, in the Federal Court the average settlement rate is 55%. In the Federal Magistrates Court, using statistics for general federal law mediations (not family law mediation figures), 32% of the 45 matters referred to mediation were settled. IPRIA notes, however, that settlement rates may not be a decisive indicator of the success of any court-annexed program.

4 Conclusions

Based on the tentative survey of the available literature, IPRIA makes the following conclusions with respect to ADR mechanisms and patent, trade mark and designs matters in Australia:

- ADR processes are increasingly being recognised as worthwhile mechanisms in the resolution of disputes, including, albeit to a lesser extent, IP disputes.
- Such processes may be appropriate for IP matters but, at this stage, there is not enough qualitative data to indicate that they are more appropriate than litigation in the court system.
- Court-annexed ADR schemes are presently in use in Australia and exist in the Federal Court of Australia and the Federal Magistrates Court.
- Laws pertaining to the Federal Court and the Federal Magistrates Court compel those courts to promote ADR to parties where appropriate, and if necessary, to order that parties undertake mediation or other ADR/PDR mechanisms.

Appendix A: United Kingdom Data⁹⁷

Chancery Division: Summary of Proceedings started, 2001

Nature of Proceedings	Total
Claims and other originating summonses issued	7282
Bankruptcy petitions	9323
Companies Court proceedings	20423
Patents Court appeals	6

Chancery Division: IP claims and originating summonses issued in London by nature of proceedings, 2001

Nature of Proceedings	Total
Confidential Information	30
Passing off and Trade Marks	247
Patents and registered designs	61
Copyright and design rights	289

Court of Appeal (Civil Division): Final appeals filed and disposed of, showing court appealed from and results, 2001

Court or tribunal	Filed	Allowed	Dismissed	Dismissed by Consent	Struck out for failure to provide documents	Otherwise disposed of	Total
Chancery	118	43 (36%)	52 (44%)	29 (25%)	1	3	128
Patents Court	15	1 (6%)	8 (53%)	4 (27%)	-	3	16

Court of Appeal (Civil Division): Interlocutory appeals filed and disposed of, showing court appealed from and results, 2001

Court or tribunal appealed	Filed	Allowed	Dismissed	Dismissed by	Struck out for failure to provide	Otherwise disposed	Total
----------------------------	-------	---------	-----------	--------------	-----------------------------------	--------------------	-------

⁹⁷ UK Lord Chancellor's Department, *Annual Judicial Statistics 2001* (2001) <<http://www.lcd.gov.uk/judicial/jsar00/contents.htm>> at 30 August 2002.

IPRIA — Submission to ACIP on whether the Jurisdiction of the Federal Magistrates Service should be Extended to Include Patent, Trade Mark and Design Matters

from				Consent	documents	of	
Chancery	36	13 (36%)	11 (30%)	8 (22%)	-	2	34
Patents Court	-	1	-	-	-	-	1

Appendix B: United States Data⁹⁸

Error! Unknown switch argument.

Error! Unknown switch argument.

Time Intervals from Filing to Disposition at the US District Courts, July 1997–June 1998

Error! Unknown switch argument.

Number of Appeals to the Court of Appeals of the Federal Circuit, July 1997–June 1998

Error! Unknown switch argument.

⁹⁸ Technology & Financial Consulting <http://www.techfin.com/presentations_main.html>

Appendix C: Australian ADR Statistics⁹⁹

Court	ADR services provided	Activity measures	Outcome measures	1998-99	99-2000	2000-01	Project- ed or target		
5 Commonwealth									
Family Court of Australia	Counselling	Families assisted (Files opened)		26,768	25,998				
		Occasions of service		58,633	55,285				
			Agreement on ≥ 1 issue		60-80%	71%/54% ¹⁰⁰			
			Agreement on all issues			39%/26%			
	Mediation	Information sessions			130	83			
		People attending info			982	403			
		Cases opened			417 ¹⁰¹	279			
		Sessions			834	451			
			Full settlement			70%	61%		
			Partial settlement			11%	16%		
	Conciliation	Conferences held				6733			
			Settlement			47%			
	Mediation ¹⁰²	Numbers referred						29,000	
		Files opened					20,890		
		Occasions of service					41,027		
		No. of conciliation conferences held					7,007		

⁹⁹ National Alternative Dispute Resolution Advisory Council, *ADR Statistics* (2002) 7-8.

¹⁰⁰ Voluntary/court.

¹⁰¹ Estimate from 'mediation sessions averaging two sessions for each matter'.

¹⁰² In 2000, the Family Court commenced using the term to 'mediation' to cover all of these services.

IPRIA — Submission to ACIP on whether the Jurisdiction of the Federal Magistrates Service should be Extended to Include Patent, Trade Mark and Design Matters

			Settlement rate (conciliation conferences)			45%	
			Number of agreements				22,000
			Proportion of cases resolved			79%	75%
			Mediated agreement resolved within 6 months of filing				90%
			Client satisfaction				75%
<u>Federal Court</u>	Assisted Dispute Resolution	Matters referred to mediation		347	312	278	
			Settlement rates ¹⁰³				55%

¹⁰³ Average since 1987.

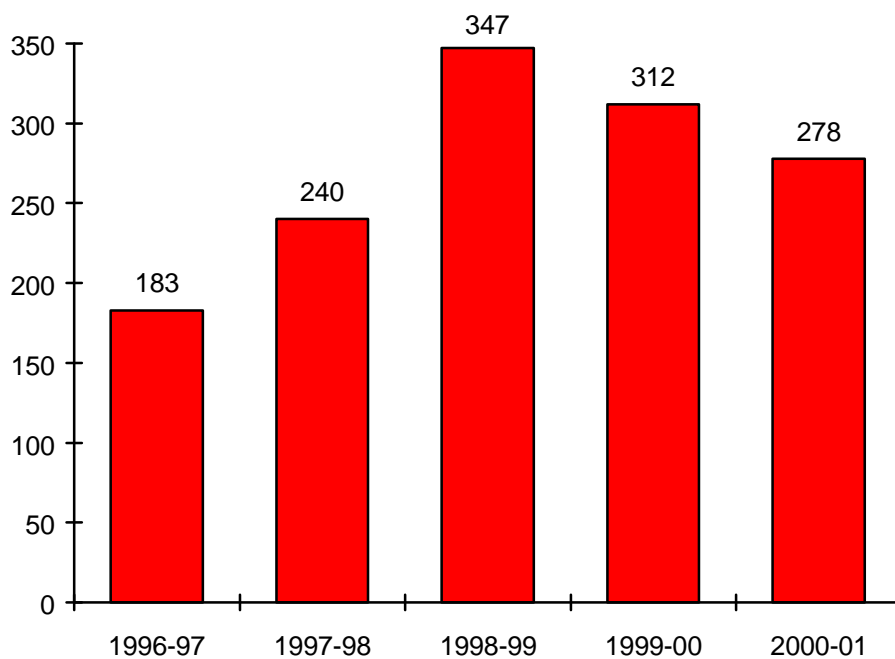
IPRIA — Submission to ACIP on whether the Jurisdiction of the Federal Magistrates Service should be Extended to Include Patent, Trade Mark and Design Matters

Federal Magistrates Service ¹⁰⁴	Family Law PDR by Family Court Magistrate	Pre-first court date counselling	No statistics published			
		Counselling family law mediation	numbers		1200	
	General Federal Law mediation (by Federal Court Registrars)	Mediation	Matters ordered to mediation			45
				No (%) settled		14 (32%)
				No (%) not settled		12 (26%)
				No (%) discontinued		2 (4%)
				No (%) finalised before mediation		2 (4%)
				No (%) transferred		2 (4%)
				No (%) continuing		13 (30%)
	Overall PDR	Number of cases				11,000

¹⁰⁴ Service became operational during 2000.

Appendix D: ADR in the Federal Court and Federal Magistrates Court

Assisted Dispute Resolution in the Federal Court: Matters referred for mediation for 1996–97 to 2000–2001¹⁰⁵



General Federal Law Mediations in the Federal Magistrates Service¹⁰⁶

Error! Unknown switch argument.

¹⁰⁵ Federal Court of Australia, *Annual Report 2000/01*, p. 48.

¹⁰⁶ Federal Magistrates Service, *Annual Report 2000–01*, p. 45.