Newsletter
Stephens Lawyers & Consultants

September 2008

Developments in Patent Law: September 2008

Recent Developments in Patent Law:

- Two significant Federal Court decisions:
  - *Universityof Western Australiav Gray*[1] (17 April 2008): indicates that courts will take a narrow approach when determining a university's entitlement to ownership of inventions by academic staff
  - *Delnorth v Dura-Post (Aust)*[2] (13 August 2008): discussed the enforceability of innovative patents and defined the scope of the "innovative step" requirement.
- New Federal Court Patent Procedures proposed

University of Western Australia v Gray - IP ownership and academics

Background

Dr Gray invented various cancer treatments whilst employed by UWA. During this period, Gray co-founded Sirtex Medical Ltd and assigned invention rights to Sirtex. As the principal shareholder in Sirtex, Gray established the charitable organisation Cancer Research Institute Incorporated (CRI) which also invested in Sirtex. UWA claimed that Gray had breached his contractual and fiduciary duties to the University, and asserted a right to the inventions.

French J's Findings

French J found against UWA on the basis that Gray's employment contract contained no express [3] or implied term [4] that the intellectual property belonged to UWA. Whilst Gray's contract contained no express provision enabling the university to acquire intellectual property rights arising from the course of his employment, the court acknowledged the capacity for universities to do so [5] . UWA was unable to incorporate its intellectual property regulations in Gray's contract as they were incorrectly promulgated at the time of Gray's invention [6] . French J was reluctant to imply a term giving an employer ownership over all inventions made during the course of employment into all employment contracts [7] . Furthermore, the decision cemented an important distinction between a duty to research and a duty to invent. A university academic employed to research, is not necessarily under a duty to invent, even where research could result in an invention [8] . French J also highlights the unique status of universities as employers, noting that the principles which operate in industrial settings have little application to academia. Gray was a member of the university as well as an employee and was not obliged to advance the commercial purpose of the university [9] . The court found no basis for an express or implied obligation upon Gray not to disclose the patentability of any invention developed in the course of his employment at the university [10] . Unlike in *Victoria University* [11] , Gray was not found in breach of a fiduciary duty to the university. Whilst accepting established principle, French J distinguished the Victorian Supreme Court decision on a factual basis [12] as Gray was pursuing his own interests externally to his duties at the university.

Implications

The *UWA* decision reinforces the warning to Universities that contractual provisions dealing the employee ownership of inventions and intellectual property should:

- Expansively define employee inventions and intellectual property to cover inventions made by the employee whilst employed by the employer, irrespective of whether the invention is made in the course and scope of employment, within or outside normal work hours or using employer or own resources;
- Contain express assignment of the employee inventions and intellectual property therein to the employer;
- Deal with the issue of compensation, where appropriate.

Universities should also ensure that any regulations relating to IP are valid.

Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd [13] - Defining 'innovative step'

Background

In 2006, Delnorth filed three Innovation Patents relating to "Steel Flex" - a roadside post comprising of flexible sheet spring steel. Delnorth began manufacturing "Steel Flex" by August 2006 and instituted proceedings against Dura-Post, claiming that its competitor's product "Flexi-Steel" violated the innovation patents filed by Delnorth. Dura-Post brought a cross-claim for revocation, claiming that one or more of the patents failed to relate to a manner of manufacture, lacked fair basis, novelty, utility or clarity. Innovation patents have been available in Australia since the implementation of the *Patents Amendment (Innovation Patents) Act 2000* (Cth), however this is first major decision regarding their enforceability.

Gyles J's Findings

Gyles J found that two of the three Delnorth patents were invalid as they did not satisfy the innovative steps required by sections 7(4) and (5) of the *Patents Act 1990 (*Cth). Section 7(4) of the *Patents Act* defines an innovative step as follows: ***7(4)*** For the purposes of this Act, an invention is to be taken to involve an innovative step when compared with the prior art base unless the invention would, to a person skilled in the relevant art, in light of the common general knowledge as it existed in the patent area before the priority date of the relevant claim, only vary from the kinds of information set out in subsection (5) in ways that make no substantial contribution to the working of the invention. Subsection (5) defines the prior art base as covering both public documents and information made publicly available by use anywhere in the world. His Honour considered the following steps [14] , when determining whether an innovative step existed for the purposes of the above sections of the *Patents Act*:

1. Compare the invention claimed with the prior art base and determine the difference(s);
2. Look at differences through 'the eyes of a person skilled in the relevant art in light of common general knowledge' [15] as it existed in Australia before the priority date of the claim;
3. Ask whether the invention only varies the kinds of information set out in prior art (s 7(5) *Patents Act*) 'in ways that make no substantial contribution to the working of the invention' [16] .

In interpreting the phrase 'in ways that make no substantial contribution to the working of the invention', Gyles J explained that the difference between a new material and the prior art may only be slight [17] , however, if it makes a substantial contribution, then an innovative step is established. In considering what constitutes a 'substantial contribution', Gyles J suggested that its scope may range from "more than insubstantial" or "of substance" to "great" or "weighty" [18] . Delnorth succeeded in proving the validity of one of its three patents. Patent 1 was held to meet the requisite innovative step, as it made a 'real contribution which is of substance to the working of the invention' [19] . Dura-Post was subsequently held to have infringed Patent 1.

Implications

This is the first case to provide guidelines for determining what constitutes an innovative step in relation to innovative patens and confirms that this is something less than an inventive step. It also shows that an innovation patent can protect an invention, provided that it has a point of differentiation from the prior art and makes a substantial contribution to the working of the invention. The definition of what constitutes a substantial contribution to the working of the invention is likely to be subjective.

New Federal Court Patent Procedures Proposed

In July 2008, the Federal Court proposed to implement various procedures relating to patent proceedings, to accelerate the identification of issues and improve the efficiency of the trial process. The court suggested that the following would be included in the new procedures:

- New proceedings will be listing before a nominated Patents List Judge;
- After the filing of particulars of invalidity the party seeking revocation must explain how each ground of invalidity can be supported;
- Particulars of invalidity should include details of the passages of any prior publication relied upon for novelty purposes;
- Before discovery is ordered, the parties must confer to discuss the issues to be addressed by discovery and the nature of the documents sought, and whether evidence should precede discovery;
- If appropriate, case management conference will be arranged to resolve issues concerning discovery and any interlocutory steps;
- Before any direction for the filing of evidence, the court will make enquiries regarding the nature and relevance of expert evidence;
- Any special matters should be raised at the earliest possible occasion including any intended application for amendment to the patent.

A comprehensive outline of the suggested reforms can be found as a schedule attached to the judgment of Heerey J in *Black & Decker Inc v GMCA Pty Ltd (No 3)* [2008] FCA 932 [20] .

Stephens Lawyers & Consultants have a high level of expertise in intellectual property law.

Our lawyers represent leading companies in both litigious and commercial matters, and have significant experience in writing submissions to government on behalf of clients. For further information contact:

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[1] [2008] FCA 498; (2008) 246 ALR 603.

[2]*Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225.

[3]*University of Western Australia v Gray* [2008] FCA 498, [90].

[4]*University of Western Australia v Gray* [2008] FCA 498, [159]-[161].

[5]*University of Western Australia v Gray* [2008] FCA 498, [90].

[6]*University of Western Australia v Gray* [2008] FCA 498, [90]-[93].

[7]*University of Western Australia v Gray* [2008] FCA 498, [164].

[8]*University of Western Australia v Gray* [2008] FCA 498, [1360].

[9]*University of Western Australia v Gray* [2008] FCA 498, [1360]-[1363].

[10]*University of Western Australia v Gray* [2008] FCA 498, [1360].

[11]*VictoriaUniversity of Technology v Wilson* (2004) 60 IPR 392; [2004] VSC 33.

[12]*University of Western Australia v Gray* [2008] FCA 498, [1567].

[13] [2008] FCA 1225.

[14]*Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225, [52].

[15]*Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225, [52].

[16]*Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225, [52].

[17]*Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225, [63].

[18]*Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225, [54].

[19]*Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd* [2008] FCA 1225, [64].

[20]http://www.austlii.edu.au/au/cases/cth/federal_ct/2008/932.html.