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UNITED STATES AND AUSTRALIA: A COMPARATIVE  
ANALYSIS**

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# THIRD PARTY PATENT CHALLENGES IN EUROPE, THE UNITED STATES AND AUSTRALIA: A COMPARATIVE ANALYSIS

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## ABSTRACT

The granting of a patent can no longer be seen solely as an arrangement between the patent applicant and the Patent Office. Third parties are playing a key role in the processes leading to the grant, and validation, of patents. This paper, a broadly descriptive piece, looks at the key differences between three systems of third party challenge which have the common goal of providing patentees and their competitors a forum, other than the courts, where issues of patent validity may be challenged and resolved. Those three systems are: post-grant opposition before the European Patent Office, pre-grant opposition in Australia and re-examination in the United States. Various aspects of the systems are looked at including an overview of the procedures, avenues of appeal and statistics on their use. Insufficient empirical evidence is available to permit a comprehensive assessment of which system is the most effective; however, the data available does allow some conclusions to be drawn – including the suggestion that one reason for the differences in levels of use of the three systems may be the perceptions of USPTO examiners and the culture that has built up within the US patent attorney profession. The degree of divergence in the three systems further indicates that more work needs to be carried out if reforms to the procedures are to be based on need rather than supposition.

## *I. Introduction*

The granting of a patent can no longer be seen solely as an arrangement between the patent applicant and the Patent Office.<sup>1</sup> Given the pressures on patent systems around the world, third parties are playing a key role in the processes leading to the grant, and validation, of patents. Generally speaking, there are three mechanisms currently operating around the world – post-grant opposition, pre-grant opposition and re-examination. This diversity is in contrast with the current trend to increase

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<sup>#</sup> Research Fellow, Intellectual Property Research Institute of Australia, University of Melbourne. This research has been supported by funds from the Australian Research Council (DP0666803). The project has a substantial empirical component and will include the interviewing of lawyers, patent attorneys and patent examiners to assess their perceptions of the opposition and re-examination procedures and also the compilation of statistics as to the use of the opposition procedure in Australia. Aspects of this article were presented at the European Policy for Intellectual Property (EPIP) Association 3<sup>rd</sup> Annual Conference, Bern, 4 October 2008. The helpful comments on that presentation by various Conference attendees is gratefully acknowledged. The authors would also like to thank Kim Weatherall and Andrew Christie for their comments on an earlier draft of this article. All mistakes remain with us.

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<sup>1</sup> This perspective is implicit in the characterisation of the patent specification as the *quid pro quo* of the monopoly right.

international harmonisation of patent systems and procedures, a priority for a number of international organisations including the World Intellectual Property Office, the European Patent Office (EPO) and the US Patent and Trademark Office (USPTO).<sup>2</sup>

This article, a broadly descriptive piece, compares the systems of patent review – post-grant in Europe, pre-grant in Australia and re-examination in the United States. Each mechanism is discussed in turn.<sup>3</sup> The major characteristics and issues associated with each process are identified, as are the differences. Further, statistics of use are considered in the context of the variations in procedures. Overall, the intention is to uncover the key differences between three systems of third party challenge which have the common aim of providing patentees and their competitors a forum, other than the courts, where issues of patent validity may be challenged and resolved.

## ***II. Purposes of Third Party Challenges***

Prior to the detail of the three systems of third party challenge, there needs to be a consideration of the potential purposes of such challenges. The literature that analyses the procedures has been fuelled by concerns about the extensive costs of court actions for revocation;<sup>4</sup> however, the purposes of the systems have not been particularly well theorised.<sup>5</sup> This section raises three possible reasons for opposing, or re-examining, patents or patent applications: improving the quality of granted patents, an alternative to litigation and providing competitors with “freedom to operate” in the market.

The reasoning behind the “quality” justification is based on the recognition of the limited time available to patent examiners when an application is first assessed.<sup>6</sup> Due

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<sup>2</sup> This is reflected, in the Australian context, in its recent Free Trade Agreement with the US which requires that each party attempt ‘to reduce differences in law and practice between their respective systems’ and ‘participate in international patent harmonisation efforts’: *Australian-United States Free Trade Agreement* (2004), Article 17.9.14.

<sup>3</sup> There is a range of European and US material on systems of patent review. In contrast, there have been very few articles on Australian pre-grant opposition. One is COLLINS, “Patents Act 1990: Opposition to Grant of a Standard Patent”, 4 A.I.P.J. 147 (1993).

<sup>4</sup> It has, for example, been said that ‘few challenges strike deeper fear in the heart of businesspeople today than the prospect of patent litigation’: KLINE, “Patent Litigation: The Sport of Kings”, available at [http://www.lclark.edu/faculty/clewis/objects/Kline\\_Pat\\_Lit\\_Article.pdf](http://www.lclark.edu/faculty/clewis/objects/Kline_Pat_Lit_Article.pdf).

<sup>5</sup> The accessibility of patent data from the EPO and USPTO has instead lead to a variety of empirical studies on opposition and re-examination. See, for example, CARLSON & MIGLIORINI, “Patent Reform at the Crossroads: Experience in the Far East with Oppositions Suggests an Alternative Approach for the United States”, 7 N.C.J.L. & Tech. 261 (2006); ADAM & SPENCE, “Opposition in the European Patent Office: An Underestimated Weapon?”, *Olswang/Oxford Intellectual Property Research Centre Study* (2001).

<sup>6</sup> A number of commentators argue that low quality patents are currently produced by the system. See, for example, SHI, “Re-examination, Opposition or Litigation? Legislative Efforts to Create a Post-

to the rising numbers of applications received each year,<sup>7</sup> patent examiners are seen to have restricted time and resources to determine issues of patentability and decide on proposed claims.<sup>8</sup> In addition, there is evidence that some Patent Offices are short staffed.<sup>9</sup> These observations lead to the conclusion that the ‘prior art search and evaluation during the original examination, therefore, cannot be exhaustive’.<sup>10</sup>

Rigour of examination, therefore, appears at the heart of the reasons for third party challenge. According to IP Australia, patent opposition ‘enables interested persons to place before the Commissioner evidence ... which may or may not have considered when the application was examined’.<sup>11</sup> Opposition and re-examination are perceived as beneficial because they lessen the numerous social costs associated with potential concerns over patent validity.<sup>12</sup> Such costs include that that the patentee may

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Grant Patent Quality Control System”, 31 AIPLA Q.J. 433 (2003); CARLSON & MIGLIORINI, *supra* note 5; KESAN & GALLO, “Why “bad” patents survive in the market and how should we change? – the private and social costs of patents”, 55 Emory L.J. 61 (2006); LEVIN & LEVIN, “Patent Oppositions”, Stanford Institute for Economic Policy Research Discussion Paper No. 01-29 (2002); MERGES, “As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform”, 14(2) Berkeley Tech. L.J. 577 (1999).

<sup>7</sup> For example, between 1992 and 2002, the number of patent applications filed annually in Europe, Japan and the US rose by more than 40%: OECD, “Patents and Innovation: Trends and Policy Challenges” (2004). It has increased most years in Australia since 1990-1991, with over 22,000 applications in 2002-2003 according to IP Australia statistics. Like the number of applications, the amount of patents issued each year also increases: According to the OECD, ‘high grant rates in the United States may have attracted more applications which in turn have generated more grants, and part of the surge in EPO might have come from a sharp reduction in fees (effective in July 1997)’: *supra* note 7, at 15.

<sup>8</sup> Examiners polled in anonymous survey at the EPO ‘stated overwhelmingly that ... the influx of new applications was seriously undermining the quality of patents that the EPO issues’: FARRELL & MERGES, “Incentives to Challenge and Defend Patents: Why Litigation Won’t Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help”, 19 Berkeley Tech. L.J. 943, 945 (2004).

<sup>9</sup> Hostenay submits that the USPTO is short-staffed ‘about 900 examiners: HOSTENAY, “What Now? Post-Grant Oppositions and the Proposed Budget”, Intellectual Property Today, 8 (2005), available at <http://www.hosteny.com/archive/Hosteny%2003-05.pdf>.

<sup>10</sup> SHI, *supra* note 6, at 436.

<sup>11</sup> IP AUSTRALIA, “Patent Oppositions”, available at <http://www.ipaustralia.gov.au/pdfs/patents/specific/oppositn.pdf>.

<sup>12</sup> Further, by examining patent claims, opposition and re-examination are seen to improve community and investor confidence in the patent system. Patent opposition is likely to ‘strengthen the patent system by submitting patents to review and potentially eliminating patents that do not measure up to federal patent law’: PARADISE, “Lessons for the European Union: The Need for a Post-Grant Mechanism for Third-Party Challenge to US Patents”, 7(1) Minn. J.L. Sci. & Tech. 315, 317 (2005). Soobert agrees: ‘in this manner, the validity of issued patents would be strengthened by permitting questionable patents to be pared from stronger ones’: SOOBERT, “Breaking New Ground in Administrative Revocation of US Patents: A Proposition for Opposition – and Beyond”, 14 Santa Clara Computer & High Tech. L.J. 63, 105 (1998).

underinvest in the technology, potential competitors may reduce expenditure on competing technical advances and costly litigation may occur.<sup>13</sup>

Opposition and re-examination are also viewed favourably as an alternative to patent litigation. One reason parties use these mechanisms is to restrict the broader claims of a competitor's patent so that they have freedom to operate.<sup>14</sup> Without resorting to time-consuming and expensive court procedures, successful opposition and re-examination may allow parties to continue a particular manner of manufacture or method or process. Parties may initiate opposition and re-examination proceedings to obtain some breathing space from their competition and to ensure that they avoid infringement.

Studies have also shown that successful opposition is likely to lessen subsequent litigation significantly. While commentators have suggested that opposition itself involves cases that may not have proceeded to litigation<sup>15</sup> and that opposition may lead to later litigation,<sup>16</sup> Hall et al have shown that 'the net result ... is fewer suits filed, and possibly fewer collusive settlements based on the threat of a suit'.<sup>17</sup> Further, according to a study by Levin and Levin, a low-cost opposition procedure will often supplant higher cost litigation.<sup>18</sup> Taken together, the highlighted studies show, overall, third party challenges are likely to produce more social welfare gains than losses.

It is not clear, however, that the three types of challenge fulfil any, or all, of these purposes to the same extent. In order to assess the success of each type, the detail of the challenge process has to be considered. This is the task of this article. The first procedure examined is that of the European post-grant opposition.

### ***III. European Post-Grant Opposition***

#### **A. Background**

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<sup>13</sup> HALL, GRAHAM, HARHOFF & MOWERY, "Prospects for Improving U.S. Patent Quality via Post-Grant Opposition", NBER Working Paper 9731, 3 (2003).

<sup>14</sup> Patent attorneys in the United Kingdom and Australia have suggested this in interviews conducted as part of the project highlighted in the author note above.

<sup>15</sup> It has been argued that 'giving the parties a lower cost method of resolving disputes can lead to oppositions in cases when the entering firm might either have refrained from development or been able to negotiate a license without litigation': LEVIN & LEVIN, *supra* note 6, at 4.

<sup>16</sup> According to Hall, Graham, Harhoff & Mowery: 'Unsuccessful opposition may still lead to litigation later and, unless barred by statute, successful opposition might also lead to later litigation on the part of the former patent-holder': HALL, GRAHAM, HARHOFF & MOWERY, *supra* note 13, at 13.

<sup>17</sup> HALL, GRAHAM, HARHOFF & MOWERY, *supra* note 13, at 13.

<sup>18</sup> LEVIN & LEVIN, *supra* note 6, at 22.

In Europe, third party challenges to patents are relatively common. The patent system administered by the EPO uses a post-grant opposition procedure – that is, the ‘opposition procedure is an independent procedure which takes place after the grant procedure ... [and] is not part of the grant procedure’.<sup>19</sup> An essential feature of the patents granted by the EPO is that they are a ‘bundle of national patents’,<sup>20</sup> rather than a single, centrally enforceable, monopoly.<sup>21</sup> Hence, the patents granted are recognised in all the Contracting States nominated by the patent applicant.<sup>22</sup> The requirements for the patents are found in the European Patent Convention (EPC).<sup>23</sup> This section examines those aspects of the post-grant process necessary to draw out the differences highlighted in the next sections.

Prior to the EPC coming into force, post-grant opposition was ‘largely unknown in Europe’.<sup>24</sup> There had been facility for such a procedure, more properly known as revocation by the Comptroller, in the *Patents Act 1949* (UK) but not on the continent.<sup>25</sup> The prime reason for the inclusion of the post-, rather than pre-, grant opposition was that it would save costs.<sup>26</sup> Further, post-grant opposition proceedings were ‘thought to have very real benefits in ensuring the quality of the patents granted by the Office [on the grounds that] a search by the granting authority cannot be presumed to be complete’.<sup>27</sup> In other words, prospective opponents, having expertise in the field of the challenged patent may have access to additional information that could impact on the grant of the patent.<sup>28</sup> Perhaps the main benefit of opposition is that is a single action before the EPO rather than multiple actions before national

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<sup>19</sup> T 198/88 (OJ 1991, 254).

<sup>20</sup> PATERSON, “The European Patent System: The Law and Practice of the European Patent Convention” 188 (Sweet & Maxwell, London 1992).

<sup>21</sup> Progress is being made on negotiations for a centralised patent litigation system known as the European Patent Litigation Agreement. The goal of the discussions is a unified judicial system to settle disputes over the validity and infringement of a single European patent. For more information, see <http://www.european-patent-office.org/epo/epla/index.htm>.

<sup>22</sup> An additional fee has to be paid by the patent applicant for each additional Contracting State designated in the patent grant: European Patent Convention, Article 79(2).

<sup>23</sup> Formally known as the ‘Convention on the Grant of European Patents of 5 October 1973’. The Convention is a multi-lateral treaty that establishes the European Patent Organisation.

<sup>24</sup> ADAM & SPENCE, *supra* note 5, at 4.

<sup>25</sup> Pre-grant oppositions were available in countries such as West Germany and Austria.

<sup>26</sup> ADAM & SPENCE, *supra* note 5, at 4. ‘In particular, a procedure of pre-grant opposition would have required an additional publication’: ADAM & SPENCE, *supra* note 5, at 4.

<sup>27</sup> ADAM & SPENCE, *supra* note 5, at 5.

<sup>28</sup> The benefit of the knowledge of third parties is evident also in Article 115 of the European Patent Convention which allows for parties not involved in an opposition procedure to offer observations as to the patentability of the invention.

courts as occurs in European patent litigation.<sup>29</sup> The opposition process ‘gives opponents a relatively cheap way of opposing a patent where the only other path would be actions through court litigation in all the countries where the patent is valid’.<sup>30</sup> That is, a centralised challenge procedure saves all parties costs associated with substantially similar litigation in multiple jurisdictions.<sup>31</sup>

## B. Initiation

The centralised opposition process allows for a single procedure. To initiate the procedure the opponent must file a notice of opposition with the EPO within nine months of the publication of the patent.<sup>32</sup> Any person may oppose a patent granted by the EPO.<sup>33</sup> The main exception to this rule is that patent holders are not entitled to oppose their own patents.<sup>34</sup> Usually, the ‘opponents are rivals of the patent-holder who seek to have the patent revoked or narrowed’.<sup>35</sup> It is not necessary, however, for the opponent to have, or to specify, a particular interest in the patent.<sup>36</sup>

It is also possible for an opponent to remain anonymous, for all intents and purposes, during an opposition.<sup>37</sup> There has to be a named opponent for the procedure, however, that person could be an agent of the competitor. Such a ‘straw man’ arrangement is allowable as long as it does not amount to an abuse of process.<sup>38</sup> While EPC is silent

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<sup>29</sup> In Europe the process for competitors to challenge the validity of a patent via litigation differs depending on the jurisdiction. In the United Kingdom, for example, a competitor may challenge the validity of a patent as a defence or counter-claim if sued for infringement. Alternatively, he/she may apply to the Court or Patent Office to have a patent revoked. In Germany, if an opposition is not pending and cannot be filed because the time period after publication of the grant has lapsed, a competitor can challenge the validity or modify the scope of a patent only by filing a nullity proceeding.

<sup>30</sup> LEITH, “Harmonisation of Intellectual Property in Europe: A Case Study of Patent Procedure” 43 (Sweet & Maxwell, London 1998).

<sup>31</sup> One consequence of the post-grant process is that the line between oppositions and revocation actions has become ‘blurred’: ADAM & SPENCE, *supra* note 5, at 5. For a discussion of the relationship between the opposition procedure and revocation actions see GORI, “The European Patent Grant System and How it Ties in with Revocation Proceedings”, 21 IIC 452 (1990); and BRINKHOF, “The Revocation of European Patents”, 27 IIC 225 (1996).

<sup>32</sup> European Patent Convention, Article 99.

<sup>33</sup> European Patent Convention, Article 99(1).

<sup>34</sup> G 9/93 (OJ 1994, 891) – a decision of the Enlarged Board of Appeal.

<sup>35</sup> HARHOFF, “The Battle for Patent Rights,” in: PETERS & VAN POTTELSBERGHE (eds.), “Economic Management Perspectives on Intellectual Property Rights” 21 (Palgrave Macmillan, New York 2006).

<sup>36</sup> SUN, “Post-Grant Patent Invalidation in China and in the United States, Europe and Japan: A Comparative Study”, 15 Fordham Intell. Prop. Media & Ent. L.J. 273, 303 (2004).

<sup>37</sup> This may be important where an opponent is the competitor of the patentee and who does not want to draw attention to themselves.

<sup>38</sup> G 3/97 and G 4/97 (OJ 1999, 245, 270). Examples given of what would constitute an abuse of process are if the ‘opponent is acting on behalf of the patent proprietor’ and the ‘opponent is acting on behalf of a client in the context of activities which, taken as a whole, are typically associated with professional representatives, without possessing the relevant qualifications required by Article 134’ of

on the capacity of the EPO to oppose patents in its own right, the Enlarged Board of Appeal has held that the phrase ‘any person’ in Art. 99 can ‘only be reasonably interpreted as referring to the public at large’.<sup>39</sup>

### C. Grounds

An important aspect of any third party challenge to the grant of a patent is the grounds upon which the grant may be opposed. A patent granted by the EPO may be opposed on the following grounds:<sup>40</sup>

1. The subject-matter of the European patent is not patentable within the terms of Articles 52 to 57;<sup>41</sup>
2. The European patent does not disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art; and
3. The subject-matter of the European patent extends beyond the content of the application as filed, or, if the patent was granted on a divisional application or on a new application filed in accordance with Article 61, beyond the content of the earlier application as filed.<sup>42</sup>

This, therefore, means that an opposition may be filed on most of the substantive tests for patentability. It has been pointed out, however, that ‘lack of clarity of the claim is not a ground for invalidity in opposition’.<sup>43</sup> Further, the ‘Opposition Division may of its own motion raise a ground for opposition not covered by the opposer’s notice of opposition’.<sup>44</sup>

Commentators suggest that the most successful ground for oppositions reflects the intended purpose of the procedure. According to Soobert, ‘often, the most persuasive

the European Patent Convention: G 4/97 (OJ 1999, 271). Article 134 dictates the requirements for a person to act as a professional representative in proceedings of the Patent Office.

<sup>39</sup> G 9/93 [3]. The EPO may, however, continue opposition proceedings that have been commenced in the event of the death or legal incapacity of the opponent: European Patent Convention, Rule 60(2).

<sup>40</sup> European Patent Convention, Article 100.

<sup>41</sup> Articles 52 to 57 stipulate the basic requires for patentability: ‘patentable inventions’ (Article 52); ‘exceptions to patentability’ (53); ‘novelty’ (54); ‘non-prejudicial disclosures’ (55); ‘inventive step’ (56) and ‘industrial application’ (57).

<sup>42</sup> Article 61 allows the prosecution of a patent application by a person other than the applicant in circumstances where it has been decided that the person, and not the applicant, is entitled to the grant of the patent.

<sup>43</sup> LEITH, *supra* note 30, at 43 n47.

<sup>44</sup> JANIS, “Rethinking Re-Examination: Toward a Viable Administrative Revocation System for U.S. Patent Law” 11 Harvard Journal Law & Tech. 1, 104 (1997) citing G09, 10/91.

arguments are based on a lack of novelty'.<sup>45</sup> This may be seen to confirm the assumption that competitors, potentially, have access to more information than patent examiners. It is unsurprising, therefore, that the production of such information to destroy the novelty of claims of a patent is the most effective ground for opposition.

#### **D. Process**

The opposition process is overseen by an Opposition Division. The Division is constituted by three examiners and may, if circumstances warrant, include a legal member.<sup>46</sup> One of the examiners may be the person who examined the patent initially, however, that examiner may not be the Chairman of the Division.<sup>47</sup>

The notice of opposition must contain details of the opponent, any appointed representative, the patent opposed and the grounds of opposition along with an indication of the facts, evidence and arguments to be relied upon.<sup>48</sup> The patentee will then be notified and given the opportunity to file 'observations' on the notice of opposition and to file any amendments.<sup>49</sup>

Prior to any oral hearings, there is the possibility of the exchange of observations and evidence between the parties.<sup>50</sup> The evidence may include, amongst other things, documents, opinions of experts and sworn statements.<sup>51</sup> It is argued, however, that 'opposition in the EPO is primarily a written procedure'.<sup>52</sup> Oral hearings are open to the public<sup>53</sup> and take place at the request of either party or if the Opposition Division considers it expedient to do so.<sup>54</sup> Procedures for the conduct of hearings and the taking of evidence are detailed in the Implementing Regulations.<sup>55</sup>

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<sup>45</sup> SOOBERT, *supra* note 11, at 149. Leith concurs and states that 'the best chance of winning an opposition will be on presenting new prior art rather than arguing about the level of inventive step': *supra* note 30, at 44.

<sup>46</sup> European Patent Convention, Article 19(2). A 'legally qualified examiner is normally included if oral evidence is to be taken': PATERSON, *supra* note 20, at 190.

<sup>47</sup> That the primary examiner is part of the Opposition Division has been suggested to give rise to perceived bias. That is, it may be presumed that the examiner may be uninterested in finding that the original decision to grant a patent was wrong. Analysis, however, suggests that 'these doubts have proven to be at best greatly exaggerated': Adam and Spence, above n 5, 20.

<sup>48</sup> European Patent Convention, Rule 55.

<sup>49</sup> European Patent Convention, Rule 57.

<sup>50</sup> THORLEY, MILLER, BURKILL & BIRSS, "Terrell on the Law of Patents" 83 (5<sup>th</sup> ed. Sweet & Maxwell, London 2000).

<sup>51</sup> European Patent Convention, Article 117(1).

<sup>52</sup> LEITH, *supra* note 30, at 43.

<sup>53</sup> European Patent Convention, Article 116(4).

<sup>54</sup> European Patent Convention, Article 116.

<sup>55</sup> European Patent Convention, Rules 71-76.

## E. Outcomes

The opposition is decided on the basis of the balance of probabilities<sup>56</sup> with the patent owner retaining a ‘presumption of validity’.<sup>57</sup> There are three possible outcomes from an opposition procedure<sup>58</sup> – the patent may be maintained without amendment, the patent may be amended, or the patent may be revoked.<sup>59</sup> The opponent is ‘not estopped from later asserting in a national court of an EPC Contracting State the invalidity of any claim of a patent that was determined to be valid and patentable based on the same issue raised in the opposition’.<sup>60</sup> In other words, even if the opponent ‘loses the opposition, he or she can litigate the same issues in a national court if sued for infringement’.<sup>61</sup>

## F. Appeal

Any party adversely affected by a decision of the Opposition Division may appeal.<sup>62</sup> A notice of appeal must be filed within two months of the date of notification of the decision to be appealed.<sup>63</sup> Appeals are heard by the Board of Appeal – a body internal to the EPO – and are appeals *de novo*.

The same grounds for challenge are available to the party filing the appeal.<sup>64</sup> A ‘party may raise fresh reasons even though they are unconnected with the reasons in the decision under appeal’.<sup>65</sup> However, a ground of challenge that was not raised in the notice of opposition may not be introduced in the appeal.<sup>66</sup> When deciding the appeal, the Board of Appeal ‘may either exercise any power within the competence’ of the

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<sup>56</sup> This test has been described in the terms that the Division ‘must decide what is more likely than not to have happened’: T 381/87.

<sup>57</sup> JANIS, *supra* note 44, at 105.

<sup>58</sup> European Patent Convention, Article 102.

<sup>59</sup> Amendments may be offered at any stage of the opposition process, including during an oral hearing: THORLEY, MILLER, BURKILL & BIRSS, *supra* note 50, at 83.

<sup>60</sup> CARLSON & MIGLIORINI, *supra* note 5, at 279.

<sup>61</sup> CARLSON & MIGLIORINI, *supra* note 5, at 280.

<sup>62</sup> European Patent Convention, Article 107. A ‘party is adversely affected if the decision does not accede to his main requests or to auxiliary requests preceding the allowed auxiliary request’: T 234/89 (OJ 1989, 79). There are limitations as to the appeals that may be brought with respect to decisions regarding costs awarded in oppositions proceedings: European Patent Convention, Article 106(4) and (5).

<sup>63</sup> European Patent Convention, Article 108. A written statement containing the grounds of appeal must be filed within four months of the notification of the decision.

<sup>64</sup> European Patent Convention, Rule 66(1).

<sup>65</sup> TRITTON WITH DAVIS ET AL., ‘Intellectual Property in Europe’, 151 citing T 611/90 (2<sup>nd</sup> ed. Sweet & Maxwell, London 2002).

<sup>66</sup> G 1/95 (OJ 1996, 615).

Opposition Division or ‘remit the case’ to the Division for further prosecution.<sup>67</sup> Decisions by the Board of Appeal are final, however a question of law may be referred to the Enlarged Board of Appeal for clarification.<sup>68</sup>

### G. Costs

There are two areas of costs connected with an opposition proceeding. The first is the fee payable to the EPO. Currently, that fee is US\$856.<sup>69</sup> The second, more significant, area is the representation of the parties for the conduct of the opposition. An estimate, by Harhoff, is that the ‘cost of opposition ranges between 15,000€ and 25,000€ for each party’ (or US\$20,000 and US\$34,000).<sup>70</sup> In most cases, parties bear their own costs.<sup>71</sup> It is possible that a different apportionment of costs may be ordered by either the Opposition Division or Board of Appeal ‘for reasons of equity’.<sup>72</sup>

It is useful to gauge the relative cost of opposition proceedings. Opposition expenses may be judged against the overall cost of patents and the fees in litigating patents through the court system. With respect to the first – a recent study has found that, in 2003, a European patent costs, on average, €40,350 (US\$55,700).<sup>73</sup> This figure includes application, attorney and translation fees. Harhoff’s estimate, therefore, considers opposition proceedings to cost an additional 40% to 60% of the total patent cost. The relative cost of oppositions may be further assessed against litigation expenses. The costs of litigation in any national court have been estimated to be between €50,000 and €500,000 (or US\$68,000 and US\$680,000), depending on the

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<sup>67</sup> European Patent Convention, Article 111(1).

<sup>68</sup> European Patent Convention, Article 112.

<sup>69</sup> EPO costs are available from <http://www.epoline.org>. All currency conversions in this article are based on the exchange rates at 5 December 2008.

<sup>70</sup> HARHOFF, “Battle for Patent Rights”, *supra* note 35, at 23.

<sup>71</sup> In the words of Hall and Harhoff, the ‘option to assign costs is rarely used’: HALL & HARHOFF, “Post-Grant Reviews in the U.S. Patent System – Design Choices and Expected Impact”, 19 Berkeley Tech. L.J. 989, 1003 (2004). There is no provision made in the European Patent Convention for the awarding of costs in appeal proceedings.

<sup>72</sup> European Patent Convention, Article 104(1). An example where the Board of Appeal ruled that the apportionment of costs was justified involved the incurring of excessive costs during an oral proceeding where one party was the main cause for the expense: T 49/86.

<sup>73</sup> ROLAND BERGER MARKET RESEARCH, “Study on the Cost of Patenting”, available at [http://www.european-patent-office.org/epo/new/cost\\_analysis\\_2005\\_study\\_en.pdf](http://www.european-patent-office.org/epo/new/cost_analysis_2005_study_en.pdf). Other studies, however, put the cost of patenting in Europe much lower. For example, one stated that the ‘total cost of a European patent amounts to approximately €29,800’ (US\$37,900): HALL, GRAHAM, HARHOFF & MOWERY, *supra* note 13, at 8.

complexity of the case.<sup>74</sup> Oppositions, therefore, may be seen as significantly cheaper than litigation.

## H. Statistics

In addition to the costs of the procedure it is important to understand how often, and how, post-grant opposition is used. The statistical analysis discussed here has three parts. The first relates to the number of oppositions filed with the EPO. The second concerns the time taken to conduct opposition proceedings. The last highlights the outcomes of opposition proceedings.

2,960 patents were opposed in 2005; 53,259 patents were granted in the same year.<sup>75</sup> More generally, analysis indicates that ‘historically, about 7.9 per cent of all patents granted by the EPO between 1980 and 1995 have been attacked’.<sup>76</sup> There are, however, significant differences between technology sectors.<sup>77</sup> The opposition rate for patents in the semiconductors, computing, and software sector is substantially lower than that for patents in the biotechnology/pharmaceutical sector.<sup>78</sup> Harhoff found that rate of opposition in the areas of chemistry (9.1%) and process engineering (9.7%) were above the average rate (7.9%); whereas the rate in electrical engineering (5.3%) was lower than average.<sup>79</sup>

The overall opposition figure, however, may be compared with the percentage of patents that are contested in the court system.<sup>80</sup> The litigation rate in most European countries is roughly one per cent.<sup>81</sup> Based on the costs highlighted above, that there

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<sup>74</sup> GRAHAM, HALL, HARHOFF & MOWERY, “Post-Issue Patent “Quality Control”: A Comparative Study of US Patent Re-Examinations and European Patent Oppositions” NBER Working Paper No. 8807, 12 (2002).

<sup>75</sup> EUROPEAN PATENT OFFICE, “Annual Report 2005”, 87.

<sup>76</sup> HARHOFF, “Battle for Patent Rights”, *supra* note 35, at 22. There are indications, in part based on the authors’ conversation with staff at the EPO, that the rate of oppositions has dropped in recent years to closer to 5%.

<sup>77</sup> Further, it has been noted that there is significant difference in the use of the opposition procedure by different nationalities. In particular, data indicate that there is an ‘extremely high number of oppositions filed by German parties’: ADAM & SPENCE, *supra* note 5, at 8.

<sup>78</sup> GRAHAM, HALL, HARHOFF & MOWERY, *supra* note 74, at 13.

<sup>79</sup> HARHOFF, “Battle for Patent Rights”, *supra* note 35, at 24. Harhoff’s analysis also shows that there is variation between individual corporations, within a particular technology area, as to their propensity to file opposition proceedings: HARHOFF, “Battle for Patent Rights”, *supra* note 35, at 28-34.

<sup>80</sup> These two situations do not reflect the total of inter-party patent challenges. Anecdotally, ‘there is a settlement rate of about 20-25 percent of the cases that do not even hit opposition’: HARHOFF in “Edited & Excerpted Transcript of Symposium on Ideas into Action: Implementing Reform of the Patent System”, 19 Berkeley Tech. L. J.1053, 1099 (2004).

<sup>81</sup> HALL, GRAHAM, HARHOFF & MOWERY, *supra* note 13, at 11. Elsewhere, Hall and Harhoff put the figure at 0.9%: HALL & HARHOFF, *supra* note 71, at 1007.

are significantly more oppositions than court battles suggests that the EPO procedure represents a notable financial saving for patentees and their competitors.

In addition to the monetary costs of disputes, challenges also produce time costs. Research indicates that, ‘once actually initiated, in 2001 the mean length of opposition proceedings ... was 27.3 months and the median length ... 23.7 months’.<sup>82</sup> The duration of an opposition depends, in part, on the outcome. If the patent is revoked at the end of opposition, the process takes 2.2 years. If the patent is amended, the time taken is ‘about 4 years’.<sup>83</sup> Hall and Harhoff have also shown that the length of oppositions varies between technology sectors. For example, the median duration in the field of mechanical engineering is 1.7 years while the median for electrical engineering is 2.1 years.<sup>84</sup>

The final area of statistics relates to the outcomes of oppositions. Overall, Harhoff, using data of patents granted between 1980 and 1990, found that, across all technical areas, 34.7% of opposed patents were revoked, 27.4% were left untouched and 32.7% were amended.<sup>85</sup> Analysis indicates that the outcomes vary between industry sectors. Revocation ranged between 31.0% (consumption and construction) and 37.8% (electrical engineering); rejection of opposition between 24.5% (chemistry) and 30.4% (consumption and construction); and the rate of amended patents varied between 30.7% (electrical engineering) and 35.2% (chemistry).<sup>86</sup>

## ***IV. Australian Pre-Grant Opposition***

### **A. Background**

The second type of third party challenge considered in this article is the pre-grant opposition process found in Australia.<sup>87</sup> Pre-grant opposition allows interested

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<sup>82</sup> ADAM & SPENCE, *supra* note 5, at 21.

<sup>83</sup> GRAHAM, HALL, HARHOFF & MOWERY, *supra* note 74, at n 36. These statistics were based on analysis of patents granted between 1980 and 1998.

<sup>84</sup> HALL & HARHOFF, *supra* note 71, at 1004.

<sup>85</sup> HARHOFF, “Battle for Patent Rights”, *supra* note 35, at 24. These figures were for the final outcome of the opposition and therefore included the results of any appeal. It may also be noted that in 5.3% of cases, the opposition was closed – either through the withdrawal of the opposition or the failure of the patentee to pay renewal fees on the patent: HARHOFF, “Battle for Patent Rights”, *supra* note 35, at 25.

<sup>86</sup> HALL & HARHOFF, *supra* note 71, at 1005. In a different study, it was found that in the biotechnology/ pharmaceutical sector, the opposition was rejected in 19.1% of cases, the patent was revoked in 31.5% of cases and the patent amended in 38.1% of cases: GRAHAM, HALL, HARHOFF & MOWERY, *supra* note 74, at 36.

<sup>87</sup> Australia is now the only country in the OECD that is persisting with the pre-grant challenge system. New Zealand is proposing to abolish its pre-grant opposition system – see the *New Zealand Patents*

persons to challenge the validity of a standard patent application after it has been examined and accepted by the Patent Office (IP Australia) but before it is finally granted.<sup>88</sup> If a competitor favours litigation, he/she may challenge a granted patent's validity by way of a counter-claim to a claim of infringement<sup>89</sup> or by applying to a prescribed court for a revocation order.<sup>90</sup> Pre-grant opposition dates back to the first Australian 1903 Patents Act and has been reviewed by various reform bodies.<sup>91</sup> There are, currently, no proposals before the Government to reform the procedure.<sup>92</sup>

## B. Initiation

Opposition may be initiated by any person. There is no obligation for an opponent to have a particular interest in the patent and no restriction on the class of 'person' who may oppose.<sup>93</sup>

## C. Grounds

Narrower than grounds that a competitor may use to challenge patent validity in court, opposition may be filed on one or more of the following five bases:

1. The nominated person is not entitled to the grant of a patent, or is only entitled in conjunction with another person;<sup>94</sup>
2. The invention is not a valid manner of manufacture; or when compared to the prior art, is not novel or, does not involve an inventive step;<sup>95</sup>

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*Bill 2008*, introduced into New Zealand Parliament in July 2008 to replace the *New Zealand Patents Act 1953*.

<sup>88</sup> *Patents Act 1990* (Cth) s 59.

<sup>89</sup> *Patents Act 1990* (Cth) s 121.

<sup>90</sup> *Patents Act 1990* (Cth) s 138.

<sup>91</sup> In its 1984 report, the Industrial Property Advisory Committee (IPAC) recommended that pre-grant opposition be abolished. The government rejected IPAC's recommendation. A 1999 report by the Advisory Council on Industrial Property (now the Advisory Council on Intellectual Property – ACIP) and a 2000 report by the Intellectual Property and Competition Review Committee (IPCRC) considered whether opposition should instead be post-grant. Both reports concluded that the process should remain pre-grant. See IPAC, "Patents, Innovation and Competition in Australia" (1984); ACIP, "Review of Enforcement of Industrial Property Rights" (1999); IPCRC, "Review of Intellectual Property Legislation under the Competition Principles Agreement" (2000). A common criticism of a pre-grant process is delay; it was, for example given as one of the key reasons for the move away from pre-grant opposition in the United Kingdom: "The British Patent System: Report of the Committee to Examine the Patent System and Patent Law", 34 (1970) (this Report is more commonly known as the Banks Report).

<sup>92</sup> The possibility of change to post-grant opposition, however, persists. See, for example, ACIP, "Post-Grant Patent Enforcement Strategies", Issues Paper, 12-14 (2006) and C. Dent, 'Patents as Administrative Acts: Patent Decisions for Administrative Review?' (forthcoming, *Sydney Law Review*, 2008)

<sup>93</sup> See AUSTRALIAN PATENT OFFICE, "Manual of Practice and Procedure", parts 3.4.2 and 3.4.3.

<sup>94</sup> A patent may only be granted to a person who is the inventor or has a legal right to the claimed invention by operation of law or pursuant to an assignment by the inventor: *Patents Act 1990* (Cth) s 15.

3. The invention is not useful; or was secretly used in Australia before the priority date of the claim by or on behalf of, or without the authority of, the nominated person;<sup>96</sup>
4. The specification does not describe the invention fully, or does not end with claims defining the invention, or the claims are unclear and are not fairly based on the matter described in the specification (compliance with s. 40); or
5. The invention relates to human beings or to the biological processes for their generation.<sup>97</sup>

The grounds which are ‘commonly relied upon’ in oppositions are lack of novelty, lack of inventive step, and non-compliance with s. 40.<sup>98</sup> The Commissioner may, in deciding a case, take into account any ground on which the grant of a standard patent may be opposed, whether relied upon by the opponent or not.<sup>99</sup>

#### **D. Process**

A Notice of Opposition must be filed within three months of a patent application being advertised.<sup>100</sup> After the Notice of Opposition has been filed, the parties may settle the opposition at any time. Alternatively, either party may terminate proceedings at any stage of the dispute.

Once the Notice of Opposition and the Statement of Grounds and Particulars have been filed,<sup>101</sup> the opponent and applicant have opportunities to file and serve documentary evidence related to the opposition. If the patent applicant has reasonable grounds, he/she may apply to adduce further evidence in reply to the opposition before the close of proceedings, even after a hearing has been held.<sup>102</sup>

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<sup>95</sup> *Patents Act 1990* (Cth), s 18(1)(a), (b).

<sup>96</sup> *Patents Act 1990* (Cth), s 18(1)(c), (d). This is a recent ground of opposition that has been added as a result of amendments to the *Patents Act 1990* (Cth) by the *US Free Trade Agreement Implementation Act 2004* (Cth). See *US Free Trade Implementation Act 2004* (Cth), schedule 8; *Patents Regulations 1991* (Cth), reg. 5.9A.

<sup>97</sup> *Patents Act 1990* (Cth), s 18(2).

<sup>98</sup> COLLINS, *supra* note 3, at 153.

<sup>99</sup> *Patents Act 1990* (Cth), s 60(3).

<sup>100</sup> *Patents Regulations 1991* (Cth), reg. 5.3(1).

<sup>101</sup> Following the filing of the Notice of Opposition, the opponent must serve the applicant a copy of its Statement of Grounds and Particulars. Failing to do so within three months is a ground for dismissal: *Patents Regulations 1991* (Cth), reg. 5.5(4)(b).

<sup>102</sup> See *Patents Regulations 1991* (Cth), reg. 5.10(4); O’SULLIVAN & ROLLS, “Practical Guide to Australian Patent Law” 200 (Lawbook Co., Sydney 2003).

If either party requests the Commissioner, or if the Commissioner decides, a hearing will be held.<sup>103</sup> The Commissioner must be satisfied that the evidentiary stage of the opposition has been completed, although no hearing is required if the Commissioner reasonably believes ‘that no party wishes to be heard’.<sup>104</sup> Opposition hearings are open to the public; however, if a hearing involves confidential material, it will be closed when that material is being considered.<sup>105</sup>

## E. Outcomes

There are three possible outcomes of an opposition: proceedings may be dismissed in their entirety or in relation to particular grounds;<sup>106</sup> an application may be withdrawn; or an application may be amended. The standard of proof applicable in opposition proceedings is the civil standard of balance of probabilities.<sup>107</sup> The evidential burden rests with the opponent; however, it may shift where the relevant facts are ‘peculiarly within the knowledge’ of the applicant.<sup>108</sup>

In many oppositions, the Commissioner’s decision will provide the applicant an opportunity to propose amendments in order to rectify deficiencies in the opposed application. In the event that an applicant proposes amendments, a final decision to dispose of the opposition is required, unless the opponent withdraws the opposition.<sup>109</sup>

An opponent is not estopped from later litigating the same issues if the opposition is not successful. As O’Sullivan and Rolls write: ‘Evidence in a patent opposition should always be prepared with regard to the possibility that court proceedings to the same matter may follow.’<sup>110</sup>

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<sup>103</sup> *Patents Regulations 1991* (Cth), reg. 5.12. For substantive matters, the Commissioner will not wait for either party to request a hearing, however the Commissioner will (on the agreement of the parties) defer such hearings for reasonable periods of time: AUSTRALIAN PATENT OFFICE, “Manual of Practice and Procedure”, part 3.2.7.1.

<sup>104</sup> *Patents Regulations 1991* (Cth), reg. 5.14.

<sup>105</sup> For an example of a hearing closed to the public, see *Iluka Midwest Limited v Industrial Minerals Pty Ltd*, APO 58 (27 July 2001).

<sup>106</sup> *Patents Regulations 1991* (Cth), reg. 5.5. See *L’Air Liquide SA v Commonwealth Industrial Gases Ltd*, 24 IPR 77 (1991). A ground cannot be dismissed merely because the particulars are inadequate: *Ora Vax Inc v CSL Ltd*, APO 18 (2 April 1998).

<sup>107</sup> *Dunlop Holdings Ltd’s Application*, RPC 523 [1979].

<sup>108</sup> See *Dunlop Holdings Ltd’s Application*, RPC 523 [1979]; *Iluka Midwest Limited v Wimmera Industrial Minerals Pty Ltd*, APO 58 (27 July 2001).

<sup>109</sup> AUSTRALIAN PATENT OFFICE, “Manual of Practice and Procedure”, part 3.2.11.1.

<sup>110</sup> O’SULLIVAN & ROLLS, *supra* note 102, at 192.

## F. Appeal

A person who is dissatisfied with the outcome of an opposition may appeal to the Federal Court or request review by the Administrative Appeals Tribunal (AAT).<sup>111</sup> The applicant and any opponent may appeal to the Federal Court against a decision of a Commissioner.<sup>112</sup> The decisions that may be appealed are substantive matters concerning issues of patent validity. The opponent has the onus of proving that the patent, if granted, would not be valid.<sup>113</sup> The appeal is a *de novo* hearing heard by a single judge of the Federal Court.<sup>114</sup> Where a decision of the Commissioner is reversed on appeal, the Commissioner may appeal to a higher court. The Commissioner will likely only file an appeal if he/she believes the decision is ‘clearly wrong in law’.<sup>115</sup>

## G. Costs

In Australian oppositions, the issue of costs has two parts. First, there are the fees payable to IP Australia and legal representatives. Second, there are the costs that may be awarded by the Commissioner. The fees payable to IP Australia are listed in the Regulations.<sup>116</sup> A typical opposition would include the fees for filing a Notice of Opposition (US\$355), filing a request for a hearing (US\$387) and appearing at a hearing (US\$387<sup>117</sup>). It is difficult to find an estimate of the expenses paid to legal

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<sup>111</sup> The reviewable decisions for the AAT are listed in *Patents Act 1990* (Cth), s. 224 and *Patents Regulations 1991* (Cth), reg. 22.26. The decisions that may be appealed to the AAT are more procedural matters, such as directions as to the period of time within which a standard patent must be granted. A right of appeal is provided to persons ‘whose interests are affected by the decision’: *Administrative Appeals Tribunal Act 1975* (Cth), s. 27(1). The AAT may affirm, vary, or set aside a decision under review. For a decision set aside, the AAT may make a decision in substitution or remit the matter for reconsideration: *Administrative Appeals Tribunal Act 1975* (Cth), s. 43(1).

<sup>112</sup> *Patents Act 1990* (Cth), s. 60(4).

<sup>113</sup> *F Hoffman-La Roche AG v New England Biolabs Inc*, 50 IPR 305 (2000); *Kaiser Aluminium & Chemical Corp v Reynolds Metal Co*, 1A IPR 107 (1969).

<sup>114</sup> *Patents Act 1990* (Cth), s. 156; LAHORE & DUFTY, *Patents, Trademarks & Related Rights* looseleaf, volume 1 - commentary 10,238 (Butterworths, Sydney 2006).

<sup>115</sup> AUSTRALIAN PATENT OFFICE, “Manual of Practice and Procedure”, part 3.15.7. If an appeal by the Commissioner is to be filed, leave of the court may need to be obtained: *Patents Act 1990* (Cth), s. 158(2).

<sup>116</sup> See *Patents Regulations 1991* (Cth), Schedule 7.

<sup>117</sup> The fee for appearing at a hearing for the first day is US\$387 less certain amounts that may already have been paid. If the hearing runs for more than a day, the fee is US\$387 for each day or part of a day after the first day.

representatives, however the fees are considered to be lower than the estimated costs of litigation in Australian courts (\$US65,800 to \$877,000).<sup>118</sup>

The Commissioner may award costs against a party in opposition proceedings. The winning party is generally entitled to an award of its costs. That is, the losing party may be liable for the other party's expenditure, as well as its own.<sup>119</sup> A party may attempt to obtain costs after they are awarded 'irrespective of the decision of the Commissioner being appealed'.<sup>120</sup>

## H. Statistics

Approximately 1.5% of all accepted Australian patent applications are opposed<sup>121</sup> and there are normally less than 100 opposition hearings a year.<sup>122</sup> Though these figures are not immense, it appears that parties are using opposition procedures as an alternative to revocation litigation. A study by Rotstein and Weatherall shows that from 1995 to 2005, there were only 20 revocation proceedings filed in the Federal Court of Australia.<sup>123</sup> For the oppositions that do proceed to a hearing, most are settled rather quickly. Generally, a Commissioner's decision is issued within three months of a hearing. Most hearings last one day, but sometimes take two or more.<sup>124</sup>

## V. US Re-examination

### A. Background

The other third party challenge procedure in use today is the re-examination system in the US. Like in Europe, the validity of US patents may be challenged *post grant*. There are two different types of re-examination – *ex parte*<sup>125</sup> and *inter partes*.<sup>126</sup>

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<sup>118</sup> This is the estimated cost to a patentee of litigating a patent infringement action at first instance from Biotechnology Australia 2001, quoted in: MCKEOUGH, STEWART & GRIFFITH, "Intellectual Property in Australia", 404 n 81(3<sup>rd</sup> ed. Butterworths, Sydney 2004).

<sup>119</sup> Costs of hearings before the Commissioner are awarded according to the scale of costs specified in *Patents Regulations 1991* (Cth), Schedule 8. If there is a change in the scale of costs the scale used is that which is current when the costs are awarded (e.g. the date of the written decision). See AUSTRALIAN PATENT OFFICE, "Manual of Practice and Procedure", part 3.13.3.1. Costs awarded by the Commissioner against a party are recoverable as a debt: *Patents Act 1990* (Cth), s. 211.

<sup>120</sup> O'SULLIVAN & ROLLS, *supra* note 102, at 216.

<sup>121</sup> IP AUSTRALIA, "Submission P56" (4 November 2003) quoted in: ALRC, "Report 99 Genes and Ingenuity: Gene Patenting and Human Health", 9.12 (2004).

<sup>122</sup> IPCRC, *supra* note 91, at 135.

<sup>123</sup> See ROTSTEIN & WEATHERALL, "Filing and Settlement of Patent Disputes in the Federal Court, 1995-2005", 68 I.P. Forum 65, Graph 2 (2007).

<sup>124</sup> O'SULLIVAN & ROLLS, *supra* note 102, at 209.

<sup>125</sup> See 35 U.S.C. §§ 301-307; 37 C.F.R. §§ 1.501-1.570; Manual of Patent Examining Procedure ('MPEP') § 2200.

Under *ex parte* procedures, a person other than the patentee can request re-examination of a patent; however, his/her role is confined to the request for re-examination and one statutory reply after re-examination has been ordered.<sup>127</sup> In *inter partes* re-examination, a third party (called a ‘third party requester’) may participate in every stage of the re-examination proceeding.

*Ex parte* re-examination was enacted in 1980 with the passing of the *Bayh-Dole Act*. The system was intended to achieve three principal benefits:<sup>128</sup>

1. Settle validity disputes more quickly and less expensively than litigation;
2. Allow courts to refer patent validity questions to an agency with expertise in both the patent law and technology; and
3. Reinforce investor confidence in the certainty of patent rights by affording an opportunity to review patents of doubtful validity.

After concerns about the effectiveness of the *ex parte* process, an *inter partes* re-examination procedure was introduced in 1999. The procedure was intended to reduce patent litigation in US district courts by offering third party requesters a further avenue to contest the validity of issued patents.<sup>129</sup> However, it was seen as an unappealing alternative. Congressman Berman, for example, stated:<sup>130</sup>

Currently the *inter partes* reexamination procedure places so many constraints on third-party requesters of such reexamination that, as some patent attorneys have stated, “It would be legal malpractice to recommend a client initiate an *inter partes* re-examination”.

In 2002, Congress passed an Act that amended re-examination in two significant ways.<sup>131</sup> First, it afforded third party requesters in *inter partes* re-examination the right to participate in and request appeals of examiner decisions to the US Court of Appeals for the Federal Circuit (the Federal Circuit) in addition to the Board of Patent Appeals

<sup>126</sup> See 35 U.S.C. §§ 311-318; 37 C.F.R. §§ 1.902-1.997; MPEP § 2600.

<sup>127</sup> However, such a reply may be filed only if the patent owner files a pre-examination optional statement: USPTO, “Report to Congress on *Inter Partes* Re-examination”, 3 (2004), available at [http://www.uspto.gov/web/offices/dcom/olia/reports/reexam\\_report.htm](http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm). Hence, many patentees prefer to let the examiner take control of proceedings and effectively end a third party’s participation.

<sup>128</sup> 126 Cong. Rec. 29, 895 (1980) (statement of Representative Kastenmeier) quoted in: KNOWLES, VANDERBLOEMEN & PEELER, “*Inter Partes* Re-examination in the United States”, 86 J. Pat. & Trademark Off. Soc’y 611, 611 (2004).

<sup>129</sup> See 145 Cong. Rec. E1790 (August 5, 1999) (remarks of Representative Coble) quoted in: KNOWLES, VANDERBLOEMEN & PEELER, *supra* note 128, at 614.

<sup>130</sup> 147 Cong. Rec. H5360 (September 5, 2001) quoted in: STEWART, “*Inter Partes* Reexam – On Steroids” 85 J. Pat. & Trademark Off. Soc’y 656, 656 (2003).

<sup>131</sup> See *21<sup>st</sup> Century Department of Justice Appropriations Authorization Act*.

and Interferences (BPAI). Second, it allowed re-examination (ex parte and inter partes) to be based on prior art that already had been submitted to the examiner.<sup>132</sup>

In addition to this reform, there have been various reports published by federal agencies and professional groups that recommend post-grant review analogous to the system in Europe.<sup>133</sup> There have also been regular legislative attempts to establish post-grant opposition procedures in US patent law. However, recent reform has stalled. The US Patent Reform Act of 2007 (S. 1145 and H.R. 1908), introduced simultaneously to the Senate and House of Representatives on 18 May 2007, proposed a period of up to 12 months after grant to request opposition. As at 1 December 2008, the Act has been officially removed from the Senate schedule and is said to be ‘abandoned’.<sup>134</sup> This follows four bills previously introduced to Congress proposing post-grant opposition.<sup>135</sup> Given the strong support for change, this section examines the major issues and concerns associated with both ex parte and inter partes re-examination.

## B. Initiation

Under the ex parte examination procedure, ‘any person’ may, at any time during the enforceability of a patent, request re-examination.<sup>136</sup> The Director of the Patent Office

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<sup>132</sup> This effectively overruled the Federal Circuit decision *In re Portola Packaging Inc.*, 110 F.3d 786, 42 USPQ2d 1295 (Fed. Cir. 1997) that ‘a rejection in a re-examination proceeding may not be based solely on prior art that was previously applied to reject claims during prosecution of the application which matured into the patent’: USPTO, “Guidelines for Reexamination of Cases in View of *In re Portola Packaging, Inc.*, 110 F.3d 786, 42 USPQ2d 1295 (Fed. Cir. 1997)”, available at <http://www.uspto.gov/go/og/1999/week25/patguide.htm>.

<sup>133</sup> See USPTO, “The 21<sup>st</sup> Century Strategic Plan” (2003) and “Interim Adjustments to The 21<sup>st</sup> Century Strategic Plan” (2006); FEDERAL TRADE COMMISSION, “To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy” (2003), NATIONAL RESEARCH COUNCIL OF NATIONAL ACADEMIES, MERRILL, LEVIN & MYERS (eds.), “A Patent System for the 21<sup>st</sup> Century” (2004).

<sup>134</sup> See S. 1145--110th Congress (2007): Patent Reform Act of 2007, *GovTrack.us*, <http://www.govtrack.us/congress/bill.xpd?bill=s110-1145> (accessed 1 December 2008); and United States Senate, ‘Active Legislation: 110<sup>th</sup> Congress (2007-2008): Updated December 1, 2008’, available at [http://www.senate.gov/page/layout/legislative/b\\_three\\_sections\\_with\\_teasers/active\\_leg\\_page.htm#P](http://www.senate.gov/page/layout/legislative/b_three_sections_with_teasers/active_leg_page.htm#P) (accessed 1 December 2008). See also H.R. 1908--110th Congress (2007): Patent Reform Act of 2007, *GovTrack.us* <http://www.govtrack.us/congress/bill.xpd?bill=h110-1908> (accessed 1 December 2008).

<sup>135</sup> In August 2006, the *Patent Reform Act of 2006* (S. 3818) was introduced to the US Senate. According to Broache, the Bill was abandoned ‘thanks in part to disagreements among various sectors- including high-tech companies, the pharmaceutical industry, venture capitalists and independent inventors- about the extent to which the [patent] system needs fixing’. See BROACHE, “Congress takes new stab at patent system overhaul”, available at [http://news.com.com/2100-1028\\_3-6177376.html](http://news.com.com/2100-1028_3-6177376.html). In addition, the *Patents Depend on Quality Act of 2006* (H.R. 5096), the *Patent Reform Act of 2005* (H.R. 2795) and a ‘Coalition Print’ version of *Patent Reform Act of 2005* (Substitute H.R. 2795) all proposed post-grant opposition procedures.

<sup>136</sup> 37 C.F.R. § 1.510.

may also, on his own initiative, initiate re-examination.<sup>137</sup> Upon a written request, the requester's identity will be kept confidential.<sup>138</sup> Inter partes re-examination, on the other hand, may only be requested by a third party requester, and neither the Director nor a patentee can initiate proceedings.<sup>139</sup> Unlike ex parte re-examination, the request must provide the identity of the party in interest.<sup>140</sup>

Re-examination may be requested by an opponent to invalidate patent claims, or as an attempt to stay litigation while re-examination takes place.<sup>141</sup> A patentee may also request re-examination 'to properly cite prior art, correct claims, or to repair other flaws in the issued patent'.<sup>142</sup>

### C. Grounds

For both forms of re-examination, there must be a 'substantial new question of patentability' affecting any claim of a patent on the basis of cited prior art.<sup>143</sup> The prior art is limited to patents and printed publications and may include those previously considered by the USPTO.<sup>144</sup> Issues such as inventorship, inequitable conduct, enablement, written description, and best mode cannot be raised.<sup>145</sup> Therefore, the scope of patentability issues raised in re-examination proceedings is usually limited to novelty and non-obviousness.

### D. Process

As its name suggests, ex parte re-examination is essentially a proceeding between the patentee and the Patent Office. It proceeds like the initial patent examination and is mostly a documentary process. The claims being re-examined are given 'their

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<sup>137</sup> Generally, the Director will initiate ex parte re-examination on a very limited basis, such as where a general public policy question is at issue and there is no interest by any other person: MPEP § 2212.

<sup>138</sup> 35 U.S.C. § 301.

<sup>139</sup> While inter partes re-examination may be requested at any time during the enforceability of a patent, the process only applies to patents issued on applications filed on or after November 29, 1999, the date the *American Inventors Protection Act* was passed.

<sup>140</sup> 35 U.S.C § 311(b)(1).

<sup>141</sup> A stay is more likely to be granted if re-examination is sought in the early stages of litigation: *Gould v Control Laser Corp.*, 705 F.2d 1340, 217 U.S.P.Q. 985 (Fed. Cir. 1983). The closer the re-examination request is filed to a trial, the less likely that a stay will be granted. If a trial date has been set, the requesting party must generally show a "clear case of hardship or inequity": *Xerox Corp v 3Com Corp.*, 69 F Supp. 2d 404, 406-407 (W.D.N.Y. 1999), appeal dismissed, 243 F.3d 544 (Fed. Cir. 2000)

<sup>142</sup> GRAHAM, HALL, HARHOFF & MOWERY, *supra* note 74, at 13.

<sup>143</sup> 35 U.S.C § 303 for ex parte re-examination and 35 U.S.C. § 312 for inter parte re-examination.

<sup>144</sup> 35 U.S.C §§§ 301, 303, 312.

<sup>145</sup> MPEP § 2217; 35 U.S.C. §§ 102 and 103.

broadest reasonable interpretation' consistent with the specification.<sup>146</sup> In response to any Office action rejecting or affirming the patentability of claims, the patentee is permitted to propose non-broadening amendments and/or new claims.<sup>147</sup>

Re-examination proceedings are assigned to a different examiner other than the one who examined the original application.<sup>148</sup> The patentee and his/her attorney may have interviews with an examiner to discuss the merits of the case and the requester is not permitted to participate.<sup>149</sup>

The inter partes re-examination process is very similar, however it allows for greater third party requester participation. The requester is entitled to receive a copy of any re-examination communication the USPTO sends to the patentee.<sup>150</sup> Each time the patentee files a response to an Office action, the requester will also be provided one opportunity to file written comments addressing issues raised by the Office action or the patentee's request thereto.<sup>151</sup>

Like ex parte re-examination, within three months of a written request submitted, the Director will determine whether to order inter partes re-examination and the determination cannot be appealed.<sup>152</sup> The re-examination proceeds with patentee comments and amendments, requester comments, and subsequent Office actions rejecting or affirming the patentability of the claims at issue.

## **E. Outcomes**

At the end of the re-examination and following any appeals, the USPTO will issue a re-examination certificate. This cancels any claim of the patent determined unpatentable, confirms any claim held patentable, and incorporates in the patent any patentable amended or new claims.<sup>153</sup> The requester may challenge the validity of re-examined claims in infringement litigation on the same grounds. Or, as the requester is sent copies of Office actions issued during proceedings, he/she may respond to the

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<sup>146</sup> *In re Yamamoto*, 740 F.2d 1569, 222 U.S.P.Q. 934 (Fed Cir 1984); *In re Hiniker* 150 F. 3d 1362 (Fed Cir 1998); *In re American Academy of Science Tech Center*, 367 F.3d 1359, 1364, 70 U.S.P.Q. 2d 1827 (Fed. Cir. 2004).

<sup>147</sup> 35 U.S.C. § 305.

<sup>148</sup> MPEP § 2236(I).

<sup>149</sup> 37 C.F.R. § 1.560.

<sup>150</sup> 35 U.S.C. § 314 (b)(1).

<sup>151</sup> 35 U.S.C. § 314 (b)(2).

<sup>152</sup> 35 U.S.C. § 312.

<sup>153</sup> 35 U.S.C § 307 for ex parte re-examination, 35 U.S.C § 316 for inter partes re-examination.

patentee's amendments and arguments by filing a subsequent re-examination request.<sup>154</sup>

There are also two outcomes, specific to the inter partes procedure, that have confined its use. The first issue relates to estoppel. A requester is estopped from later asserting in any civil action the invalidity of any claim finally determined to be valid on any ground which the third party requester could have raised during the inter partes re-examination proceedings.<sup>155</sup> This has been cited as the most frequently identified 'inequity' that deters third party requesters.<sup>156</sup> While the question of whether an issue 'could have been raised' will be decided on a case-by-case basis,<sup>157</sup> it is uncertain what standards apply. Although the estoppel provisions were not revised by the 2002 amendments, the USPTO has since recommended further clarification.<sup>158</sup>

The second issue relates to subsequent inter partes re-examination requests. Once a re-examination order has been issued, neither a third party, nor its privies, may file a subsequent request for inter partes re-examination of the patent until an inter partes re-examination certificate is issued.<sup>159</sup> Further, once a final decision has been entered against a party in a civil action regarding the invalidity of any patent claim, inter partes re-examination cannot be requested on the basis of issues which that party, or its privies could have raised in a civil action.<sup>160</sup> There is no explanation in the statute or regulations regarding who qualifies as a 'privy' to a third party nor how extensively they will be prevented from raising issues that they 'could have raised' in the civil action.<sup>161</sup>

## F. Costs

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<sup>154</sup> 37 C.F.R § 1.565. The subsequent re-examination request will likely be merged with the pending re-examination: MPEP § 2283.

<sup>155</sup> 35 U.S.C. § 315(c).

<sup>156</sup> USPTO, "Report to Congress on Inter Partes Re-examination", *supra* note 127, at 5.

<sup>157</sup> The current USPTO position was posted in the Official Gazette vol. 1234, 97 (23 May 2000): "The question of whether an issue could have been raised must be decided on a case-by-case basis, evaluating all the facts and circumstances of each individual situation."

<sup>158</sup> USPTO, "Report to Congress on Inter Partes Re-examination", *supra* note 127, at Recommendation 1.

<sup>159</sup> 37 C.F.R § 1.907(a).

<sup>160</sup> 37 C.F.R § 1.907(b).

<sup>161</sup> For a further discussion of these and other ambiguities that relate to the inter partes re-examination estoppel provisions, see PAN, "Considerations for Modifying Inter-Partes Reexam and Implementing other Post-Grant Review", 45 (1) IDEA 1, 9-13 (2004).

Far lower than the estimated costs of litigation (US\$1.5 to 3 million),<sup>162</sup> practitioners estimate the average ex parte re-examination is US\$10,000 to US\$100,000 depending on the complexity of the matter.<sup>163</sup> According to one lawyer, US\$150,000 to US\$200,000 is acceptable for re-examination of a ‘company buster’ patent.<sup>164</sup> Similar figures are estimated for inter partes re-examination, however at US\$8,800 the filing fee is US\$6,280 more than ex parte re-examination.<sup>165</sup> The justification for the substantial fee difference is that the expected actual cost to the USPTO of an inter partes re-examination is substantially higher than ex parte proceedings.

### G. Appeal

A patentee may appeal an ex parte re-examination decision to the BPAI by filing a notice of appeal.<sup>166</sup> If the patentee is still dissatisfied, the determination of the BPAI may be appealed to the Federal Circuit or the US District Court for the District of Columbia. An appeal cannot be made regarding a decision denying a request for re-examination.<sup>167</sup>

Unlike ex parte re-examination, inter partes re-examination offers a third party requester the same appeal rights as a patentee. Either party may appeal a final USPTO decision to the BPAI, and then to the Federal Circuit.<sup>168</sup> Either party may also participate in and oppose an appeal.<sup>169</sup>

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<sup>162</sup> A 2001 survey by American Intellectual Property Law Association estimated ‘the median cost of a litigated patent infringement suit at US\$1.5 million in cases involving stakes of US\$1 million to US\$25 million; when the stakes exceed US\$25 million, the median cost was estimated to be US\$3 million’: LEVIN & LEVIN, *supra* note 6, at 2-3.

<sup>163</sup> GRAHAM, HALL, HARHOFF & MOWERY, *supra* note 74, at 8.

<sup>164</sup> COHEN, “What’s Really Happening in *Inter Partes* Reexamination”, 12 n56 (2005), available at <http://www.stoel.com/Files/InterPartes.pdf>.

<sup>165</sup> The filing fee for ex parte re-examination is US\$2,520: 37 C.F.R § 1.20(c)(1). The filing fee for inter partes re-examination is US\$8,800: 37 C.F.R. § 1.20(c)(2).

<sup>166</sup> The BPAI, in its decision, may affirm or reverse each decision of the examiner on all issues raised on each appealed claim, or remand the re-examination proceeding to the examiner for further consideration: 37 C.F.R § 41.77(a).

<sup>167</sup> 35 U.S.C. § 303(c).

<sup>168</sup> Unlike ex parte re-examination, in inter partes re-examination, there is no opportunity to appeal a decision to the US District Court for the District of Columbia. According to Representative Coble, “Such appeals are rarely taken from ex parte re-examination proceedings under existing law and its removal should speed up the process.” Cong. Rec. E1790 (5 August 1999) quoted in: CAGE & CULLEN, “An Overview of *Inter Partes* Reexamination Procedures”, 85 J. Pat. & Trademark Off. Soc’y 931, n 98 (2003).

<sup>169</sup> It should be noted that in any re-examination proceeding commenced prior to November 2, 2002, a third party requester is precluded from appealing any decision of the BPAI to the Federal Circuit and from participating in any appeal taken by the patentee to the Federal Circuit: 37 C.F.R. § 1.983(f).

## H. Statistics

The number of requests filed for ex parte re-examinations per patents issued is far from overwhelming. In fiscal year 2008, there were 680 requests filed compared to 182,556 patents issued.<sup>170</sup> Nearly half of the requests for re-examination concerned electrical patents (305 requests - 45% of the total), the remaining requests were split between the technology areas of mechanical (237 requests – 35%) and chemical (138 requests - 20%).<sup>171</sup> The average pendency of ex parte re-examinations (filing date to certificate issue date) is 24.3 months and the median is 18.9 months.<sup>172</sup> By comparison, a standard infringement suit ‘might take two to five years from initial filing to final resolution’.<sup>173</sup>

Many of those who request ex parte re-examination are patentees – a result ‘unintended’ and ‘unforeseen’ by the legislature.<sup>174</sup> As at 30 June 2008, 38% of the total requests since ex parte re-examinations began in 1981 have been filed by patentees who wish to amend their patent.<sup>175</sup> Nearly two-thirds (64%) of the total re-examination certificates issued have changed claims; 25% confirmed all claims; and only 11% of the total certificates have cancelled all claims.<sup>176</sup>

Regarding the types of patents for which ex parte re-examinations are requested, a study by Graham et al using data of patents issued between 1975 and 1999 found that requests ‘are more likely for patents that are cited more frequently by other patents following their issue’.<sup>177</sup> Patents held by individual inventors are as likely to be re-examined as those held by corporations, and patents owned by government entities are about 8-11% less likely to be re-examined. The nationality of the patentee has marginal effect on the prospect of re-examination, ‘although patents held by US,

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<sup>170</sup> USPTO, “Performance and Accountability Report Fiscal Year 2008”, Tables 6 and 13A.

<sup>171</sup> USPTO, “Performance and Accountability Report Fiscal Year 2008”, Table 13A.

<sup>172</sup> USPTO, “*Ex Parte* Reexamination Filing Data – June 30, 2008”, available at <http://cc.msnsocache.com/cache.aspx?q=74551998289619&setlang=en-US&w=1632bfac.ae15c066>

<sup>173</sup> LEVIN & LEVIN, *supra* note 6, at 3.

<sup>174</sup> See SHI, *supra* note 6, at 440.

<sup>175</sup> USPTO, “*Ex Parte* Reexamination Filing Data – June 30, 2008”, *supra* note 172. It is likely that the underlying purpose of such amendments is to improve the chance of the patent surviving a challenge through the courts – in other words, the purpose of seeking amendments through the re-examination process may be understood to be the strengthening of patents.

<sup>176</sup> USPTO, “*Ex Parte* Reexamination Filing Data – June 30, 2008”, *supra* note 172. These figures may be skewed by the fact that a significant number of people seeking re-examination are the patentees themselves and are only seeking to correct claims rather than cancel all the claims.

<sup>177</sup> GRAHAM, HALL, HARHOFF & MOWERY, *supra* note 74, at 16.

Canadian, Australian or Israeli assignees are slightly more likely to be re-examined'.<sup>178</sup>

Following its enactment in 1999, inter partes procedures have also hardly been used. According to the USPTO, the introduction of inter partes re-examination has had a 'negligible effect' on the number of ex parte re-examinations filed.<sup>179</sup> In the first two years, five inter partes re-examination requests were received<sup>180</sup> and as at 30 September 2008, only 476 inter partes requests have ever been filed.<sup>181</sup> This is well below the USPTO's projection that it would received 'approximately 400 requests in the first year inter partes re-examination was effective, with an increase of ten percent per annum'.<sup>182</sup> Only 33 inter partes re-examination certificates have been issued – exactly two-thirds of the total certificates issued have all claims cancelled (or disclaimed) (22 certificates - 67%); 7 certificates (21%) changed claims; and 4 certificates (12%) confirmed all claims.<sup>183</sup>

Overall, far more patent litigation suits are filed in the US than re-examination proceedings. In fiscal year 2008, re-examination requests accounted for about 0.4% of the patents issued that year.<sup>184</sup> By comparison, in 2004 it was estimated that approximately 1.5% of patents are litigated: about 2000 cases are filed each year, involving 3000 patents.<sup>185</sup> Competitors can only challenge the validity of a patent in a US court if they are a defendant to an infringement action or are threatened with an infringement action.<sup>186</sup> So although inter partes re-examination is the only course of action for competitors to initiate validity proceedings, it and ex parte re-examination are sparingly used.

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<sup>178</sup> GRAHAM, HALL, HARHOFF & MOWERY, *supra* note 74, at 16.

<sup>179</sup> USPTO, "Report to Congress on Inter Partes Re-examination", *supra* note 127, at 4.

<sup>180</sup> USPTO, "Report to Congress on Inter Partes Re-examination", *supra* note 127, at 3.

<sup>181</sup> USPTO, "*Inter Partes* Reexamination Filing Data – September 30, 2008", available at [http://www.uspto.gov/web/patents/documents/inter\\_partes.pdf](http://www.uspto.gov/web/patents/documents/inter_partes.pdf)

<sup>182</sup> USPTO, "Report to Congress on Inter Partes Re-examination", *supra* note 127, at 4.

<sup>183</sup> USPTO, "*Inter Partes* Reexamination Filing Data – September 30, 2008", *supra* note 181.

<sup>184</sup> USPTO, "Performance and Accountability Report Fiscal Year 2008", Tables 6, 13A and 13B.

<sup>185</sup> MOORE, "Worthless Patents", George Mason Law and Economics Research Paper No. 04-29, George Mason University School of Law, 1-2 (2004).

<sup>186</sup> Patent invalidity may be asserted as a defence or counter-claim to a patent infringement action or as part of a declaratory judgment action launched after the threat of an infringement suit.

## ***VI. Comparison of Procedures***

Before a consideration of the three types of third party challenge, there is value in highlighting the differences in procedure. There are three aspects of procedure that are worth highlighting here. They are: the initiation of the challenge, the process that needs to be followed and the outcomes.<sup>187</sup>

### **A. Initiation**

There are three issues relating to the initiation of each procedure that are important: the time period within which a challenge must be brought; who may initiate a challenge; and whether the challenger may remain anonymous. The timing of when a challenge must be initiated does vary. In Australia, it must occur within three months of the advertising of the patent application; in Europe, it is within nine months of the publication of the patent; and in the US, a request may be filed at any time the patent remains enforceable.

There is substantial similarity between the three jurisdictions as to who may initiate the process. It is not required that the applicant has a verifiable interest in the subject-matter of the patent for a challenge to be issued. There are differences, however, with respect to the capacity of the patentee to challenge her or his own patent.<sup>188</sup> In the US, under the *ex parte* process, the patentee may request a re-examination; though, under the *inter partes* they may not. In Europe, the patentee may not challenge; while in Australia, there is no purpose in such a challenge as the person may file an amendment to her or his application throughout the opposition process.

There is also a difference between the capacity of the challenger to remain anonymous. There is no scope for anonymity under the Australian system nor under the US *inter partes* procedure. In Europe, the challenger has, in effect, a capacity to remain anonymous; and, under the US *ex parte* process, the requester's identity may remain confidential. The power to remain anonymous during a challenge may significantly impact on a competitor's decision to challenge if they are doing it to gain

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<sup>187</sup> For simplicity of communication in the balance of this article, the patentee or patent applicant will be referred to as the patentee.

<sup>188</sup> Further, there are differences, at least in terms of the legislative provisions, as to whether the Patent Office or Minister can initiate a challenge. It is not clear, however, the extent to which this form of Executive action is used in any of the jurisdictions.

the freedom to operate in a particular market – that is, the competitor may not challenge if to do so means to draw attention to the firm's activities.

## **B. Process**

The procedures in each of the jurisdictions are conducted by, and within, the relevant patent office. One difference between the offices relates to the number of people responsible for deciding the case. In the US and Australia, the process is under the supervision of a single, senior examiner; whereas, in the EPO, the opposition is heard by a three person Division.

The biggest procedural difference between the systems is that in Europe and Australia, the basic structure is adversarial. That is, the opposition is, as the name suggests, a challenge to the rights (or prospective rights) of the patentee. In the US, particularly under the *ex parte* process, the procedure is more inquisitorial. In the USPTO the re-examination is conducted by the examiner with minimal involvement from the challenger – even under the *inter partes* procedure, the challenger only has the capacity to file written comments with the office. Arguably, an adversarial process allows for better airing of the issues before an adjudicator as an advocate can employ arguments to justify the consideration of particular information. This advocacy is not available if the challenge is predominantly conducted on the documents.

## **C. Outcomes**

In each of the jurisdictions, the outcomes include the patent/application either: continues unchanged; is amended; or, is invalidated. The appeal processes are, however, different. In Australia, an appeal from a decision that concerns the merits of an opposition is heard by the Federal Court. In Europe, an appeal from an Opposition Division is heard by a Board of Appeal – another body internal to the EPO. In the US, under both the *inter partes* and the *ex partes* procedures, appeals lie to the BPAI and then there is also recourse to the US Federal Court.

There is another significant difference between the systems. In the US, under *inter partes* re-examination, the requester is prevented from challenging the validity of a claim, in a legal action, that has survived the re-examination procedure. This is not the case in either Australia or the EPO. This estoppel presents a concern for the challenger – the party requesting re-examination has to choose between re-examination and litigation. Re-examination, then, is properly an alternative to

litigation; however, such a stark alternative is not necessarily in the interests of the third party.

## ***VII. Discussion***

Third party challenge procedures such as opposition and re-examination may be seen to operate to either improve the quality of patents; to give the competitors of patentees a cheaper option, instead of litigation, to challenge the monopoly grants; or simply give competitors the freedom to operate in a particular market.<sup>189</sup> This section briefly considers the processes in the three jurisdictions against these aims. It may be noted first that, in practical effect, the three schemes are substantially similar – patents are either amended, unchanged or revoked; further, the grounds for challenge are ostensibly the same.<sup>190</sup> That said, there are two ways in which the important differences between procedures may be contrasted – the timing of the procedure (either pre- or post-grant) and the nature of the process.

On a superficial level, all of these procedures provide an option to challenge patents or patent applications without using the court system; therefore, all may be used by a competitor to provide freedom to operate in a given market. It is not, however, clear which procedures are a *better* option for challengers – at least in terms of the perceptions of the firms involved. In the US, figures suggest that 0.4% of patents attract re-examination requests; other data indicate that 0.6% of patents are subject to some form of court action.<sup>191</sup> In Australia, 1.5% of patent applications are opposed, with fewer than 100 hearings a year; whereas the only statistics available indicate that, ‘between 20 and 39 patent cases were filed each year in the Federal Court of

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<sup>189</sup> It is arguable that the first two aims are synonymous – that the quality of granted patents will be improved because the patentee’s competitors will have the opportunity to challenge the grant outside the court system. This argument rests on the assumptions that (a) a quality patent is one that is best able to withstand challenge; and (b) competitor challenges necessarily improve patents. The establishment of these two grounds, in particular with respect to the meaning of a “quality patent”, is outside the scope of this article and, therefore, will not be addressed here.

<sup>190</sup> In all three, the issues of novelty and inventive step (or their equivalents) are, in practice, the two main grounds of challenge. Lack of clarity may not be a ground in the EPO opposition; nor may challenges be brought in the US on the basis of written description. In both jurisdictions, however, these are not major grounds upon which challenges are based. It is worth noting though that in the US, the prior art, for the purposes of re-examination, is limited to patents and printed publications.

<sup>191</sup> LANJOUW & SCHANKERMAN, “Characteristics of Patent Litigation: A Window on Competition”, 32 RAND Journal of Economics 129, 135 (2001). This figure is from an analysis of patent litigation in the 1980s. As such, it does not account for the ‘very rapid growth in patent litigation over the past two decades’: LANJOUW & SCHANKERMAN, “Protecting Intellectual Property Rights: Are Small Firms Handicapped?”, 47 Journal of Law and Economics 45, 46 (2004).

Australia'.<sup>192</sup> Given the fact that EPO patents are litigated in national courts, it is difficult to obtain an equivalent comparison from Europe – though it is unlikely that, with the opposition rate of about 8%, there are more instances of litigation than opposition.

In terms of costs, the estimates available indicate that the US re-examination procedures are between 1% and 6% of litigation costs. In Europe, it has been asserted that 'in comparison to litigation in the US or European courts, opposition is therefore a relatively inexpensive way of challenging a rival's patent'.<sup>193</sup> There are no comparative figures for Australia – it is, however, unlikely that an opposition hearing that lasts a day or two would come close to the expense of litigation where the mean number of court hours involved in a patent case is 54.<sup>194</sup>

It seems clear that opposition and re-examination procedures are cheaper than litigation. It also seems clear that the US procedures are under-used when compared to Australia and Europe – if it is accepted that the ratio of third party challenges against litigation is a valid criterion for comparison – as a lower percentage of patents are re-examined than are subject to litigation.<sup>195</sup> In the context of our analysis, there may be two broad causes as to why US procedures are relatively under-used: either the timing or the nature of the process. The under-use of the re-examination procedure is not likely to be a result of the timing as it is post-grant – like the EPO opposition; it is more likely, therefore, that it is because of the nature of the procedure.

The relevant aspects of the US procedure may be that it is inquisitorial, rather than adversarial, and that it is carried out by a single patent examiner. This discussion is more applicable to the *ex parte* process for two reasons. First, *inter partes* re-examination is more adversarial than the earlier version of the procedure; and second, the fact that firms filing an *inter partes* request are limited in any future legal arguments is likely to impact on the strategies they adopt. That is, the competitors of

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<sup>192</sup> WEATHERALL & JENSEN, "An Empirical Investigation into Patent Enforcement in Australian Courts", 33 *Federal Law Review* 239, 255 (2005) citing Advisory Council on Intellectual Property, "Review of Enforcement of Industrial Property Rights" (1999). There are also no figures available for the number of opposition decisions that are then appealed to the Federal Court.

<sup>193</sup> HARHOFF, "Battle for Patent Rights", *supra* note 35, at 23.

<sup>194</sup> WEATHERALL & JENSEN, *supra* note 191, at 262.

<sup>195</sup> It is difficult to assert that the Australian opposition process is under-used compared to Europe as there are no figures for the litigation of European patents. It is likely that more patents and patent applications are opposed than litigated in each jurisdiction. That the opposition rate is higher in the EPO could be a function of the patent culture or the higher value of patents granted there rather than an indication that the European process is more effective.

patentees will be dissuaded from using an inter partes process if it restricts them from pursuing later action – particularly in circumstances where only 10% of patents have had all their claims cancelled after an ex parte re-examination (this low figure may also dissuade competitors for requesting an ex parte re-examination).

That the ex parte procedure is inquisitorial is, in itself, little reason to doubt the efficacy of the process. The same material, for example, may be brought before the examiner (with the exception of prior art that is not contained in a patent or other publication). Further, there is no evidence that suggests that US examiners spend less time on a re-examination than EPO examiners spend on oppositions.

What is left, then, is that US re-examinations are conducted by a single examiner. The point may not be that it is a single examiner – after all, there is a single examiner hearing oppositions in Australia – but that it is a single *USPTO* examiner. The distinction here is that it may be the way that US examiners are perceived that is the issue – rather than there being a concern with the process.<sup>196</sup> A significant literature has developed that lays the blame over the “low quality” US patents at the feet of the overworked and underpaid USPTO examiners.<sup>197</sup> As a result, there may be a view in the patent community that the standard of the work of USPTO examiners is not optimal.<sup>198</sup>

Therefore, it may be that the under-use of the ex parte re-examination procedure is, in part, due to the perceptions of patent attorneys that the results of re-examinations are unreliable because the quality of the examinations, and re-examinations, is seen as low. In other words, patent attorneys may be advising their clients that there is no point in pursuing re-examination as the only way to obtain certainty is to seek the opinion of a court in a legal binding judgment. The culture of the patent system in the US, as a result, could be perpetuating the low use of re-examination and the relatively high use of litigation. If the variation in the level of use of the three procedures

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<sup>196</sup> One concern raised is that the USPTO receives fees for each patent application it processes. The result, according to one commentator, is that ‘officials think of their fee-paying patent applicants as their customers: the more the better ... examiners are motivated to issue patents, not to hinder them’: GLEICK, “Patently Absurd”, *New York Times*, 6 (12 March 2000).

<sup>197</sup> For example, MERGES, *supra* note 6; HALL, GRAHAM, HARHOFF & MOWERY, *supra* note 13; FARRELL & MERGES, *supra* note 8; and KESAN, “Carrots and Sticks to Create a Better Patent System”, 17 *Berkeley Tech. L.J.* 763 (2002).

<sup>198</sup> Research has also shown that the characteristics of individual patent examiners may impact on the manner in which examination, and therefore presumably re-examination, occurs: COCKBURN, KORTUM & STERN, “Are all Patent Examiners Equal? The Impact of Characteristics on Patent Statistics and Litigation Outcomes”, National Bureau of Economic Research Working Paper No. 8980 (2002).

examined in this article is, at least to a significant extent, due to the culture of the profession, then, reforming the procedures may not be sufficient to effect substantial change.

### ***VIII. Conclusion***

The goal of this article was to highlight the key features of three third party challenge procedures available in patent systems today. Therefore, the article has been mostly descriptive. The detail is important in understanding the similarities, and differences, evident in the three jurisdictions. The detail is also necessary to assist any explanation of why use of the procedures does vary.

Further analysis cannot be completed as there are gaps in the statistics available – particularly with respect to the use of the Australian procedure. This, therefore, means that little can be said, at this stage, about the efficacy of a pre-grant, as opposed to a post-grant, challenge. A more effective comparison is available between the US and European models; though the data available is still not sufficient to provide a comprehensive explanation of the differences in use patterns.

The conclusion proposed is that, given the similarities in the procedures, one infrequently discussed reason for the differences may be the perceptions of USPTO examiners and the culture that has built up within the US patent attorney profession. More work needs to be done to explore the validity of this assertion. If the culture of the profession is found to be, even partially, a significant contributor to the under-use of re-examination, then, it may be necessary to re-think any reforms that are being considered to take account of this cultural aspect of the patent system.

## IPRIA Working Papers

No.	Title	Author(s)
08/08	An Exploration of the Principles, Precepts and Purposes that Provide Structure to the Patent System	<i>Dent</i>
07/08	The Effects of Employee Mobility Between Competitors and Cooperators on Firm Performance	<i>Somaya / Williamson / Lorinkova</i>
06/08	Combining Patent Law Expertise with R&D for Patenting Performance	<i>Somaya / Williamson / Zhang</i>
05/08	The Effects of Social Networks and Contractual Characteristics on the Relationship between Venture Capitalists and Entrepreneurs	<i>Lim / Cu</i>
04/08	Open Innovation and Patterns of R&D Competition	<i>Lim / Chesbrough / Ruan</i>
03/08	The Impact of Acquisitions on the Productivity of Inventors at Semiconductor Firms: A Synthesis of Knowledge-Based and Incentive-Based Perspectives.	<i>Kapoor / Lim</i>
02/08	Misclassification in Patent Offices	<i>Jensen / Palangkaraya / Webster</i>
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