

Are Patent Trolls a Threat to E-Commerce in Australia?

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If you missed John Oliver’s excellent takedown of **patent trolls** on “Last Week Tonight” earlier in the year, it is well worth catching up here on [YouTube](#). John Oliver takes aim at those entities that attempt to enforce patent rights against accused infringers far beyond the patent’s actual value or the so-called “troll’s” inventive contribution to the prior art.

In this post we offer some advice should you be targeted by a patent troll and point out some key differences between the way in which patent cases are litigated in Australia to the US that make trolling far less attractive in this jurisdiction. We also track the (lack of) progress in two proceedings commenced in Australia by alleged trolls to date against telcos operating e-commerce businesses.

How to recognise a patent troll

The term ‘patent troll’ has come to describe ‘non-practicing entities’ (NPEs) that compile patent portfolios which they seek to monetise through licensing arrangements with ‘practicing entities’. This is done by demanding a royalty rate or lump sum from practicing entities in exchange for a promise to refrain from commencing litigation. A successful business model used by trolls in the US is to extract payment up front for less than it will cost the alleged infringer to otherwise litigate to determine its rights.

To quote John Oliver:



Most of these companies don’t produce anything, they just shake down anyone who does, so calling them trolls is a little misleading — at least trolls actually do something, they control bridge access for goats and ask fun riddles. Patent trolls just threaten to sue the living s— out of people, and believe me, those lawsuits add up!”

POWERED BY



Rise of the trolls

The US in particular has experienced a proliferation of the patent troll business model satirised above. A [report by RPX Corporation](#) records that NPEs were responsible for 63% of all US patent cases filed in 2014, compared to 28% in 2009. Despite increasing calls for US patent reform to reverse this trend, a patent reform bill drafted to deter speculative patent litigation was defeated in Congress in May 2014. The Obama regime has subsequently urged Congress to reconsider a patent reform bill directed to avoiding “[costly and needless litigation](#)” however no further legislative progress has yet been made.

Tech companies have been a particular target of the trolls, as have e-commerce participants at all levels. In the US there has been a [twenty-fold increase](#) in such litigation in a little over a decade, involving a broad spectrum of technologies from basic banking functions like ATMs to highly technical security and software applications such as cryptography methods for security standards.

Will this happen in Australia?

From an Australian perspective, participants in digital and software industries have thus far managed to largely avoid the patent troll threat. There are several reasons why the patent troll business model has not proven to be as effective in Australia as it has in the US. Significant differences between the two jurisdictions at various stages of legal proceedings are outlined in the table below:

Phase	Australian framework	United States framework
Demands	In Australia a recipient of a demand can pro-actively commence proceedings against a troll under s 128 of the Patents Act 1990 (Cth) in respect of unjustified threats of infringement proceedings.	Speculative threats and asserting patents that are vague, overly broad and/or of questionable validity has been a common feature of US trolling.
Pre-commencement – genuine steps	A plaintiff must take “genuine steps” to resolve a dispute under s 6 of the Civil Dispute Resolution Act 2011 (Cth) before commencing legal action. The courts will consider a party’s failure to take such steps (without good reason) when exercising their discretion as to the apportionment of costs.	In the US, there is no such pre-commencement requirement to negotiate and trolls may threaten or commence infringement litigation, often against multiple defendants, and in jurisdictions with reputations for being patentee-friendly.
Commencement – presumption of patent validity	In Australia patents enjoy no presumption of validity. Section 20 of the Patents Act 1990 (Cth) provides that: “Nothing done under this Act... guarantees the granting of a patent or that a patent is valid”. The court therefore considers the question of the patent’s validity afresh on the balance of probabilities.	An issued US patent “shall be presumed to be valid” (35 USC § 282). This places the burden on the defendant to invalidate the patent with “clear and convincing evidence” (Microsoft Corp v i4i Limited Partnership, Supreme Court 2011).
Commencement – relevant decision maker	Australia has an experienced Federal Court judiciary with deep intellectual property expertise, including patent litigation. Unlike the US there are no courts that have reputations for being “patentee friendly”.	Certain US district courts are perceived to be patentee-friendly. Over two thirds of patent infringement decisions are also made by juries, which are shown to grant larger damages awards – a 2015 PWC report records that between 2010 and 2014, the median US patent jury award was over 30 times the median bench award.

Phase	Australian framework	United States framework
Commencement – security for costs	Where a NPE commences patent infringement proceedings in Australia, the alleged infringer may apply for security for costs to be paid to the court on the basis that the patentee has no assets, so as to ensure that the patent holder can satisfy any adverse costs order should its claim fail.	In the US, security for costs is not relevant as parties generally pay their own attorney’s fees (see further below: “Awards for costs”).
Preliminary injunctions	High threshold to being granted an interlocutory injunction (see the Full Federal Court decision in <i>Apple v Samsung</i> underlining that interlocutory injunctions are an extraordinary remedy only granted in exceptional circumstances).	In the US injunctions are also regarded as an extraordinary remedy, however, the presumption of validity means the threshold is lower.
Pleadings – requirement to provide particulars of infringement	A statement of claim must include particulars of the alleged infringements that specify “which of the claims of the complete specification are alleged to be infringed” and must give “at least one instance of each type of infringement alleged” (Rule 34.42(3) of the Federal Court Rules 2011; eg see <i>Upaid Systems Ltd v Telstra Corporation Ltd</i> [2013] FCA 1441 where the NPE was found to fall short).	NPEs may commence infringement proceedings by pleading broad characterisations of the allegedly infringing conduct.
Damages awards	A successful claimant is generally only entitled to damages that would place them in the position had the infringement not occurred. If an infringer has no reason to believe that any relevant patent existed, a defence of innocent infringement under s 123 means that a court may refuse to award damages or to make an order for an account of profits. Additional (or punitive) damages are very rarely awarded in patent cases.	A successful claimant is entitled to at least “minimum damages”, which is assessed as “no less than the reasonable royalty” for the use of the patent, whereas any prior notice of patent rights may result in a finding of wilful patent infringement meaning that an infringer is required to pay “up to three times the amount found or assessed”, commonly known as “treble damages” (35 U.S.C. § 284).
Awards for costs	The general rule is that “costs follow the event” meaning that a patent owner who brings an unsuccessful infringement action will be required to pay a proportion of the legal costs of the successful party.	The unsuccessful party is generally only required to pay its own costs under the “American Rule” (NB: two 2014 Supreme Court decisions attempting to reverse the tide held that costs may now be awarded in patent lawsuits where the claim is found to be “exceptionally meritless”).

For the previous reasons, stakeholders in Australian e-commerce industries have had good reason to believe that patent trolls were largely isolated to US, and to a lesser extent European, markets. However, two relatively recent cases in the sector involving aggressive NPE patent holders resembling US-style patent trolls suggest that Australian stakeholders may have some cause for concern.

1 Vringo Infrastructure Inc v ZTE (Australia) Pty Ltd (2013)

In June 2013 US-based video ringtone company, Vringo Infrastructure, commenced proceedings in the Federal Court against Chinese government-owned telco subsidiary ZTE Corporation. Vringo's claim seeks to enforce two patents, purchased as part of an extensive portfolio from Nokia for US\$22 million, relating to the way mobile handsets interact with networks and services.

The proceedings, which have presumably been issued in Australia in an attempt to drive a global licensing deal, have been largely bogged down in preliminary matters before Yates J to date – after more than two years' litigation the proceeding has not yet progressed beyond the pleadings phase and into evidence. Parallel patent proceedings have been run in both the in the [UK](#) and [Netherlands](#) on different patents and with different results. In the UK proceedings, Mr Justice Birss decided that the patent in suit was both valid and infringed, commenting on the irrelevance of the patentees disparaging characterisation by ZTE as a troll:

Although they never say so bluntly, ZTE contend that Vringo are “patent trolls”. They contend that Vringo have conducted themselves in various inappropriate ways around the world against ZTE. However ZTE have not alleged or pleaded that any of this conduct amounts to a defence relevant to the issues I have to decide at this trial.

2 Upaid Systems Ltd v Telstra Corporation Ltd (2013)

In August 2013 Upaid Systems commenced proceedings against Telstra. Upaid alleges that two of its patents are infringed by Telstra's 'm-commerce' systems that allows mobile users to make purchases overseas through its now discontinued “[MOG](#)” music subscription service (and formerly BigPond Music). Upaid attempts to distinguish itself from being a troll on the basis that its founder played a role in developing the patented technology and it further claims on its [website](#) to have successfully defended its patents in the US and the UK. On closer inspection, however, it appears that Upaid's success in litigation related to IP ownership proceedings against its Indian technology developer (and subsequent shareholder), Satyam – and does not mean its patents have been upheld.

Upaid appears to be struggling with many of the difficulties expected to be faced by a patent troll in Australia highlighted in the table above. Yates J's interlocutory decision in [December 2013](#) held that Upaid had failed to properly particularise its infringement case as required by the Federal Court Rules 2011. In a further interlocutory decision in [December 2014](#), Yates J confirmed that parties do not have a right to discovery and was prepared to grant only limited interrogatories. A year on and it seems Upaid continues to face a steep uphill battle to obtain information it requires to make out its infringement case and this litigation has similarly not yet progressed into the evidence phase.

Our tips to tame the trolls

Whilst every matter must be assessed on its own merits, taking some lessons from the above examples, combined with our familiarity with Australian procedure, we can offer the following pointers should you receive a troll's demand:

01

TAKE ACTION

You should never “feed a troll” by simply offering payment, but at the same time you only ignore a demand at your peril. Where patents are acquired by a NPE, it may not understand your technology in the way that an operating competitor might, and may not be aware of precisely how your technology works. Identify ways in which your products or processes might differ from what has been patented and consider whether the patent's validity can be challenged using prior art or otherwise. [Contact us](#) at an early stage for advice.

GO ON THE OFFENSIVE

02

Significant advantage and momentum may be obtained by filing first in response to an “unjustified threat”. This denies the troll its choice of location and may also affect its choice of legal representation. Commencing proceedings can give you a significant first-mover advantage and momentum to control the future conduct of legal proceedings.

03

DEPLOY DETERRENT PROCEDURAL OPTIONS

If a troll commences action, an application for security for costs will require the troll to “put up or shut up”. If the NPE has no assets in the jurisdiction, it may be required to pay security into a court fund (or make similar arrangements) sufficient to meet an adverse costs order, so as to avoid having the proceeding stayed. As a NPE may not be sufficiently across its patented technology or your own, it may be unable to properly particularise its case or each instance of alleged infringement. A troll cannot expect a court to sympathise with attempts to plug gaps in its knowledge through discovery or interrogatories.

KEEP FOCUSED

04

Moving expeditiously to trial can undermine a typical troll's strategy of being a costly nuisance. We have developed a number of effective strategies to run suitable patent cases in a streamlined and efficient manner. These aims are reflected in the Federal Court's new Intellectual Property Practice Note, which provides several helpful mechanisms to keep the parties' focus on the real issues in dispute and to litigate proceedings as quickly, inexpensively and efficiently as possible.



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