



Is it an obvious combination or not?

A key tenet of US patent law has been re-examined

Are you or your clients interested in filing or wanting to work around a US patent? If so, read on as a recent case in the US may change your thinking.

A key tenet of patent law is that a patented invention must not be obvious. In New Zealand, this is usually determined by deciding if, at the time of filing the application, the claimed invention was obvious to a person skilled in the art with no imagination. For non-patent experts this definition amounts to deciding whether or not the patent solves a problem using new techniques or known techniques put together in a different way. If the answer is yes, then the patent claim is likely to have an inventive step and not be obvious.

As may be appreciated, the subtleties of determining what is and is not obvious can be subjective and often skilled arguments by patent experts will turn an otherwise obvious invention into patentable subject matter. Finding the inventive step can be especially difficult when the 'invention' relates to a combination of known items used in a new way. The definition in the US is similar to New Zealand, however the way this test has been applied in the US has been the subject of a recent case (*KSR v Teleflex*). The case outcome may have implications for New Zealand companies holding US patents or wanting to work around US patents.

US test

New Zealand companies filing for patent protection often look to the US as a potential country in which to protect their invention. Therefore, the current view on obviousness in the US is crucial to New Zealand companies when patents are drafted and filed. Another factor to give pause for thought is that the US tends to lead the way on what is and is not patentable subject matter. A ruling that weakens or strengthens a US patent holder's rights may well result in changes to patent strength in other countries



and may also change the value of the patent to the patentee in both the US and elsewhere.

In the US, a fight had been brewing between two companies KSR and Teleflex¹ over a patent held by Teleflex. Arguments went back and forth through the US court system that the Teleflex patent claims to connect an adjustable vehicle control pedal to an electronic throttle control in cars and SUVs are invalid as they are an obvious combination of known features. KSR defended infringement proceedings by Teleflex by arguing through the Federal Circuit, then on appeal that the claims were obvious and not valid. The courts flip-flopped in their findings with the Court of Appeal finding that the claims were not obvious. The case progressed to the US Supreme Court for further consideration. Whilst the technology in question is for cars and SUVs, almost every industry is interested in the case outcome as any rethinking in what is obvious by the Supreme Court in the US has ramifications for almost all US patent holders and those wanting to work around US patents.

"Patents and patent applications in New Zealand ... are often a first step in creating an initial deterrent to competitors..."

In summary, a key reason behind the courts' flip-flop is that the way obviousness is tested in the US varies between different authorities. The US Patent and Trademark Office and lower courts took a narrower approach when considering obviousness whereby claims to a combination are considered non-obvious if the prior art lacks some teaching, suggestion or motivation to combine the various parts together.

In contrast the Supreme Court rejected this test as being too narrow and, whilst not throwing out this test, noted that some flexibility should be shown on judging what is or is not obvious.



The US Supreme Court decision was issued on 30 April 2007 and found in favour of the KSR submissions and ruled the Teleflex claims in question were obvious and unpatentable.

In the short term, preliminary opinions appear to be that this ruling reduces the average value of US patent holdings although this will only become clear as new cases are heard by the US courts. One theory is that courts should find it easier to invalidate patents based on expert testimony and subjective interpretations of the obviousness concept. US examiners may well also take a tougher line against US patent applications in assessing obviousness. In order to overcome this, the 'inventive story' will become critical to overcoming obviousness objections and this story will be an important part of the drafting process.

New Zealand scenario

For New Zealand companies interested in obtaining, or working around, US patents this case should be taken into account. Ideally patents should be drafted to include new features not previously disclosed in the prior art. Where the features may be known individually but combined in a different way, particular care should be taken

to draft the specification and claims in order to clearly show what problems the combination solves. As noted above, having an invention story may be helpful as well as including trials where the combination did not work or where prior teachings suggested quite different solutions. Many patent specifications already do this, but this case provides added impetus to properly prove and exemplify the invention and clearly show faults or problems in the art.

Finally, in spite of the potential for change, New Zealand companies should also never overlook the value of simply applying for a patent (a patent application) or even owning a weak granted patent. Patents and patent applications in New Zealand, the US and elsewhere are often a first step in creating an initial deterrent to competitors as well as helping to market the invention and find investment. Of note also is that a granted US patent has considerable deterrent effect as it is considered valid and, if knowingly infringed, triple monetary damages may be awarded to the patentee. A desirable patent strategy recognises value in both highly robust patents and potential for weaker or speculative patents/applications.

1 US 6,237,565

Employees Surfing the Net

Ensure you have an internet policy

Computers have existed in workplaces for a considerable number of years now. However it is only recently that employment disputes over an employee's use of a workplace computer have been hitting the headlines. The internet is now widely accessible in many workplaces and disputes over its use between employers and employees are occurring. This article gives employers some guidelines on why and how to prepare an internet policy.

Having an internet policy

In order to provide an accommodating work environment it is accepted by many employers that the workplace internet can at times be put to personal use. Employees generally welcome such tolerance as it enables them to book flights, email and carry out some shopping during breaks.

If employees carry out personal tasks in a break and they have authority to do this, all is often well. However employers have a right to become concerned when personal internet use spreads to such things as accessing trading and pornographic sites, and downloading music files. Such activities can have many consequences: not only can an employer's time be wasted, but also their employer can be exposed to civil and sexual/racial harassment claims.

Having a sound internet policy should place an employer in a strong position when confronting employees about internet usage. The policy should have been appropriately communicated to the employees. Also, wherever practicable, the policy should be signed by each employee as a schedule to their employment agreement.

Having a policy will not only provide an employer with better grounds if disciplinary measures are taken against an employee over inappropriate internet use, but also employees are given clear guidelines at the start of their employment about what is considered to be acceptable internet use in their workplace.

Preparing an internet policy

In preparing an internet policy an employer must begin by thinking about the sites and emails they see as inappropriate for their workplace, as well as suitable timeframes for personal use. In a workplace where employees have a lot of downtime, for

example between answering calls, an employer may be happy for a trading site to be accessed 'between' breaks and only pornographic sites to be off-limits. Alternatively an employer may decide all internet sites are off-limits unless the employee is on an official break.

"It is accepted by many employers that the workplace internet can at times be put to personal use. Having a sound internet policy should place an employer in a strong position."

With these considerations in mind an employer should then consult their lawyer so an internet policy document can be prepared and integrated appropriately with the employer's other employment documents.

Investigating internet use

Due to the complex nature of computers and the difficulty in linking an employee to particular internet usage, employers need to take special care when investigating an employee in relation to their internet use.

If an employer decides to investigate an employee's internet use, one of the best things the employer can do from the outset is to not touch the employee's work computer. Amateur investigations by employers are very likely to jeopardise the worth of a later investigation into the computer by forensic experts.

An employer must remember that an employee will have a right to view and challenge the results of any report that is produced against them so it is better to invest in the correct process early rather than face extra costs later warding off a well-grounded personal grievance claim.

In summary

Internet access through workplace computers is ever increasing. However the flip-side of this is that employees have an expectation of having some personal online access as well. The two can actually be compatible if an employer gives the matter some attention and has an appropriate internet policy drafted. The policy should then be consistently enforced. If an employer does investigate an employee for internet policy breaches, a computer forensic analyst should be called who will ensure that 'everyone' stays well away from the computer until it is inspected.



Global Warming

The answer is blowin' in the wind

Rural landowners are more frequently being asked to be part of the solution to the perceived global warming concern by being land partners with would-be wind energy generators. A landowner's decision to participate in such projects not only assists the national energy policy, but also can make economic sense now that the marginal windswept block at the back end of the farm has the potential to provide a meaningful revenue stream to fund retirement and family generations beyond, not to mention a significant increase in the capital value of the farm.

First steps

The process usually starts with a knock on the door from a representative from an interested generator whose company has already identified the area in terms of meaningful wind speed consistency. These representatives can be employed by national or international concerns.

As land is a limited resource the various generators tend to be interested in any suitable land that is available, so a landowner needs to be aware that there is potential for choice with whom they enter into agreement. For example, that choice may range from the 100% crown-owned entities such as Mighty River Power or Genesis through to off-shore entities like New Energy Partners backed by the large international venture bankers Babcock & Brown. Clearly, careful consideration needs to be given to such a choice.

From there, the landowner or their lawyer is likely to be provided with two draft agreements. The first deals with the initial investigation period, usually negotiated to a three year term (although generators often seek longer) when the generator needs to obtain a detailed wind profile of the proposed wind farm area. Wind farms can have construction and operational budgets of hundreds of millions of dollars, so the decision to commit to a particular project is not lightly made. The second agreement is the longer term lease or easement agreement that commits the generator to construct and operate the wind farm proper. This can typically run for say 25 years, with rights of renewal after that.

Talking with us at the outset of negotiations is important, if not essential.



Landowners need not necessarily worry about the legal costs involved as these are almost always picked up by the generation companies themselves.

What's in it for me?

For the landowner, the heart of the agreement is the royalty revenue that is paid throughout the lifetime of the wind farm. A competitive royalty rate should be secured. For example, a 2% royalty in relation to the larger 3 megawatt turbines would produce an annual royalty per turbine of approximately \$20,000 on a 7 cent spot market price, although the market is presently at a lower level than that.

Good agreements for the landowner can also secure a slice of carbon credit income, business interruption compensation, restoration obligations, a meaningful code of farm conduct for the generator's workers, rates increase compensation and so forth.

At a practical level, some degree of patience has to be shown by landowners involved given the protracted resource consent process that a wind farm project has to go through. Most people will be aware of this with the regular accounts

that appear in the media. However, a sentiment is now emerging that the process ought to be streamlined to facilitate the quicker penetration of wind produced energy into the national energy market.

"For the landowner, the heart of the agreement is the royalty revenue."

If that resource consent process is successful and a wind farm is ultimately constructed a landowner can expect a reasonably significant revaluation of the affected property. While that can provide more security against which finance can be raised, a word of caution needs to be sounded in that lenders are now keen to seek a piece of the royalty rights. Talk with us so we can help you in these negotiations with your lender, so that a landowner can, after all, enjoy an appropriate return for having made their land available for what are significant national energy projects.

A Goal Not Written Down is Merely a Wish

There is a saying that a goal not written down is merely a wish. Sometimes, however, it is not as easy as it sounds. Do you, for example, have a budget and monitor it to make sure you are not over-spending? If you do, then you are ahead of 90% of the population.

Do you know how much you need to save for that holiday, that boat or your eventual retirement? Are you saving at all? Do you know how the latest changes to taxation legislation will affect you?

If you are unsure about these, do not worry – that is why it is often best to speak to an expert who can help steer you towards your goals. The following are some examples of goals an adviser can assist with:

- Explain the benefits of the new KiwiSaver scheme and whether these will be of any use to you or your family members
- Discuss exactly how the latest changes to the taxation of investment income work and how you may be able to reduce your overall taxation liability by using the most appropriate structure for your circumstances
- Start a savings fund for your children's and grandchildren's education

"Minimise the cost of your mortgage and maximise legitimate tax savings."

- Simplify the administration of your investment portfolio by using an investment management 'wrap' platform such as OneAnswer
- Ensure you have enough life insurance (keep in mind that no one ever thinks they are over insured when the surviving family needs to make a claim!)
- Identify the required amount of investment for retirement, and then set in place a savings plan
- Diversify your portfolio so you are not overly exposed to any one asset class



- Reassess your risk profile and try to better understand the meaning of risk. For example, if it is 10 years until you need to use the money in your portfolio, you can probably afford to take on more risk to achieve a higher return
- Minimise the cost of your mortgage and maximise legitimate tax savings
- Reduce or eliminate high interest-bearing debt such as credit cards
- Keep three months' living expenses in an interest-bearing 'cash account' so you can pay for unforeseen one-off expenses without ruining your savings, and
- Help you to donate your time or money to worthy charities that benefit your community.

If you would like assistance with any of the above, please contact us and we can put you in touch with a trusted and qualified PortfolioGroup adviser who will be more than happy to help.

Source: *Strategi Limited*

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Postscript

SuperGold Card for seniors

New Zealand seniors will soon be able to access 'meaningful' discounts across a range of services, reports the Ministry of Social Development. The card will be sent automatically to people receiving NZ Superannuation and the Veteran's Pension.

Plans to launch the SuperGold Card in August are well underway. "The card will have tangible benefits that will make a real difference to cardholders by providing easy access to government concessions, as well as discounts for commercial goods and services," says Winston Peters, Associate Minister for Senior Citizens.

There will be a dedicated website and a directory of services will promote the range of concessions and discounts available to SuperGold Card holders across the country.

If your business is interested in opportunities to work with SuperGold Card holders, please call the Ministry of Social Development on 0508 650 000. For seniors who would like to make some initial enquiries about the card, please call 0800 254 565.

Legal limits to profit-making behaviour in commercial relationship

A recent successful application for damages in *Gill Construction Co Ltd v Ivan Weavers Tyre Centre Ltd*¹ followed a finding that there was willful and systematic fraud, and gross breach of trust.

Gill Construction was a construction and transport company with a long-standing relationship with Ivan Weavers Tyre Centre (IWTL) to supply its vehicle fleet with tyres. The degree of trust in the relationship was such that Gill did not internally monitor its tyre use and expenditure, and relied entirely on IWTL to assess its replacement needs. IWTL held a substantial warehouse supply of Gill's replacement tyre stock at its premises for which Gill paid in advance. Gill's accounts revealed that its tyre costs averaged 55% of its total road user charges while average figures for comparable companies ranged from 20.5% to 28%. Gill alleged that IWTL had systematically overcharged for the tyres it had supplied over the previous 10 years by routinely invoicing for more tyres than were supplied. Following termination of IWTL's supply contract, Gill's tyre expenditure dropped to and remained at the industry average.

IWTL's explanations for the \$1.5 million discrepancy were regarded as implausible, groundless and immaterial. Gill's evidence was preferred. There were clear breaches of IWTL's bailment obligations because it admitted knowingly supplying tyres warehoused for Gill to other IWTL customers. Gill's complete trust in IWTL and consequent vulnerability imposed a fiduciary duty on IWTL which it had glaringly breached. The principals of IWTL were personally liable for the deceit which they had procured IWTL to commit and for procuring and perpetuating IWTL's breach of its fiduciary duty to Gill. Gill was not penalised for completely trusting IWTL. A 10% deduction from their loss claim was made to allow for contingencies and errors in calculation and a claim for exemplary damages was denied.

¹ Wild J, HC Blenheim CIV-2003-406-26, 23 March 2007

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