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Potter v Broken Hill: misuse of precedent in cross-border IP litigation

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Introduction

The case of *Potter v Broken Hill*¹ is a highly appropriate one for inclusion in this work on intellectual property ‘landmarks’ for a number of reasons. First, the background story and facts of the case are interesting: an individual invents a process which has a significant impact on mining operations to the present day and then seeks to protect his invention by launching a David and Goliath-type suit against one of Australia’s (even in 1905) largest corporations. Secondly, the case reveals much about early post-federation Australia and the degree to which the states still considered themselves separate and distinct entities from one another. Thirdly, the decision of the High Court of Australia itself established a precedent which was to restrict the capacity of intellectual property rights holders throughout the British Commonwealth to obtain redress for cross-border infringements for almost 100 years.

As will be argued below, much of the impact of the *Potter* case is largely due to an overbroad interpretation of its actual decision by later courts and the tendency to blindly follow the case as a matter of precedent rather than undertaking any serious policy analysis of the question of enforcing foreign intellectual property rights. What is also worth noting is that, given the altered legal and constitutional regime in Australia, *Potter* is a case which could not arise on the same facts today.

¹ *Potter v Broken Hill Pty Co Ltd* (1906) 3 CLR 479.

The *Potter* case: factual background²

Charles Vincent Potter, an analytical chemist by occupation, was born in England in 1859. He arrived in Victoria, Australia, in 1885 and became a consulting chemist and brewer. After securing a number of Victorian patents for a variety of products, he began work on a process for treating sulphide ores which were being mined at Broken Hill in New South Wales. In 1901 Potter invented a process for ‘flotation’ of sulphide ores whereby the ores were separated from valuable metals using hot acid. The effect of this process was that metals such as zinc, lead and silver could be more easily and effectively extracted. He obtained patents for this process in both New South Wales and Victoria. The Block 14 Company at Broken Hill adopted Potter’s process and between 1903 and 1905 extracted increased quantities of zinc.

However, around 1902, Potter discovered that Guillaume Delprat, general manager of the BHP mine at Broken Hill, had obtained patents for a very similar process and this led Potter to sue BHP for infringement of both his Victorian and New South Wales patents in the Supreme Court of Victoria. While the High Court, on appeal, proceeded to strike out his action in relation to the New South Wales patent,³ Potter was allowed to proceed with the claim for infringement of his Victorian patent. Unfortunately for Potter, this case was also unsuccessful, with the Supreme Court finding his patent invalid for lack of utility.⁴

In 1907 Potter and BHP reached a settlement, with the company agreeing to adopt aspects of his invention in what became known as the Delprat–Potter process. The use of this process proved highly successful in zinc extraction at Broken Hill and was later purchased by the Zinc Corporation. Flotation continues to be used worldwide today for the extraction of metals from sulphide ore and has even been described as ‘Australia’s greatest contribution to world technology’.⁵ Perhaps not surprisingly, Potter’s work continues to be discussed in current academic literature on mineral science.⁶ Unfortunately for Potter personally, while he received royalties for his invention, he died in debt in Melbourne in 1908. Potter may yet be another example of a person whose greatness has only been fully recognised in posterity.

² I rely heavily here on the description of Potter’s life in the *Australian Dictionary of Biography* (online edn), available at <http://www.adb.online.anu.edu.au/biogs/A110271b.htm>.

³ (1906) 3 CLR 479.

⁴ *Potter v Broken Hill Pty Co Ltd* (1907) 13 Argus Law Reports (CN) 3b.

⁵ Australian Academy of Technological Sciences and Engineering, *Technology in Australia 1788–1988* (online edn, 2001), p. 633, available at <http://www.austehc.unimelb.edu.au/tia/633.html>.

⁶ See, for example, ME Clark, I Brake, BJ Huls, BE Smith and M Yu, ‘Creating Value through Application of Flotation Science and Technology’ (2006) 19 *Minerals Engineering* 758.

The *Potter* case: the legal landscape in 1906

State patent laws

As noted above, in 1901 Potter acquired patents in both New South Wales and Victoria for his flotation process. The issue of timing here is important as the federation of Australia had occurred in the same year, with the new federal parliament given power to enact laws with respect to patents of inventions under the Constitution.⁷ However, as there was no federal legislation on patents until 1903, pre-federation state laws continued to operate. Interestingly therefore, had Potter applied for his patent only two years later there would have been no longer any separate state registrations, only a single federal monopoly. Consequently, the great jurisdictional problem lying at the heart of the *Potter* litigation – that is, the capacity of a Victorian court to adjudicate a matter involving a New South Wales patent – could not have arisen. Instead, the Victorian court would have been able to deal directly with the merits of the case, namely, whether an infringement of the patent had occurred and whether the patent had been validly granted.

This is the first of many ironies of the case: while the decision was to have a great impact on the enforcement of foreign intellectual property rights in many Commonwealth countries, it rested on pre-federation laws of Australian states which were very soon superseded.

Cross-border disputes in a federation

Another key aspect of the legal landscape operating at the time of the *Potter* case was the advent of federation five years earlier. The federal Constitution not only allocated powers to the new Commonwealth parliament and government but also included provisions which suggested a closer relationship between the states. Examples include the creation of a final appellate court on both state and federal matters (the High Court), s 92 (freedom of interstate trade) and s 118 (full faith and credit). These factors, combined with the common cultural, political and legal inheritance from the United Kingdom (all Australian states inherited the English common law), may have suggested that in the new federation, conflicts of law and jurisdiction between Australian states should rarely arise, and if they did occur, they should be dealt with in a manner consistent with the needs of a single, unified nation.

Curiously, though, a strong theme that runs through the High Court judgments in *Potter* is the degree to which all members of the court treated the Australian states as *foreign countries* in their relations to one another. While the English common law rules of private international law (jurisdiction and choice of law)

⁷ Australian Constitution s 51(xviii).

were developed and intended to apply to disputes with foreign nation states, the High Court applied them automatically to the Australian federal context without any query as to their appropriateness or need for modification. A similar point was made by Castles when he noted that in the 19th century there had been a 'general disinclination on the part of Australian courts to take into account special local conditions in deciding whether the general principles of [English] unenacted law should apply'.⁸

To show the absurdity of this approach, the leading English case relied upon in *Potter* was *British South Africa Company v Companhia de Mocambique*,⁹ which concerned a highly politically sensitive dispute involving lands in Africa between two colonial empires. Similarly, the United States decision referred to with approval, *Underhill v Hernandez*,¹⁰ concerned a tort arising from an armed revolution in South America. Such exotic transnational disputes seem very remote from the relatively mundane granting of a patent by administrative officers in New South Wales.

Yet, quite apart from unthinkingly applying the above international cases to the Australian domestic context, the court in *Potter* explicitly noted the foreignness of the Australian states as between themselves:

This case must therefore, in my opinion, be considered on precisely the same basis as if the patent in question had been granted by the government of the French Republic or of the United States of America.¹¹

The states of the Commonwealth are separate in this respect, that they have separate powers, distinct and operating upon different territories and rights. They are so distinct from each other that the aspect in which their respective exercise of power is to be regarded is not that of municipal but that of international law.¹²

It has been conceded throughout the argument that, for the purposes of the question now under consideration, the several states of Australia stand towards each other in the position of foreign states.¹³

The approach of the High Court in *Potter* in assuming that the English common law private international law rules applied to interstate disputes within Australia had the effect of establishing an unfortunate orthodoxy in Australian law which lasted for many years. Rules of private international law designed to resolve conflicts between the laws and jurisdictions of foreign states necessarily place limitations on the degree to which foreign institutions can be admitted in the forum court. These restrictions exist to protect local sovereignty and also

⁸ A Castles, 'The Reception and Status of English Law in Australia' (1963) 2 *Adelaide Law Review* 1, 9.

⁹ [1893] AC 602.

¹⁰ 168 US 250 (1897).

¹¹ (1906) 3 CLR 479, 495 (Griffith CJ).

¹² *ibid.*, p. 505 (Barton J).

¹³ *ibid.*, p. 510 (O'Connor J).

because such laws are likely to be very different to local rules and so difficult to apply. Yet within a politically, culturally and linguistically homogenous federation like Australia, conflicts of laws can only arise upon one state statutorily deviating from the uniform common law (or two states having conflicting statutes).¹⁴ Arguably, therefore, a different methodology for applying (or not applying) interstate law should govern. Indeed in *Potter* the oddity of adopting the traditional private international law approach was compounded by the fact that the Victorian and New South Wales patent statutes in force at the time were effectively identical and so there was no ‘true conflict’ of laws for the court to resolve.¹⁵ A’Beckett J, in his dissenting judgment in the Supreme Court of Victoria in *Potter*, seemed to appreciate this point:

In the case before us the defendant was bound to observe the obligation imposed by the New South Wales patent in New South Wales. It was under no similar obligation in Victoria, but that would not prevent a Victorian court from affording redress for the wrong committed in New South Wales if our court would, as it undoubtedly would, redress a wrong of the same character committed in Victoria.¹⁶

Unfortunately Australian courts in the 20th century generally followed the approach of the High Court in *Potter* and applied private international law rules to interstate cases without great reflection. So for example, almost 60 years after the *Potter* decision, one High Court judge could still say: ‘the States are separate countries in private international law, and are to be so regarded in relation to one another’.¹⁷

It was not until the late 20th century that this ‘transplant’ approach was seriously challenged. In 1987 the Commonwealth and states enacted ‘cross-vesting’ legislation which conferred the subject-matter jurisdiction of all superior state and federal courts on each other to prevent gaps in jurisdiction arising.¹⁸ While the conferral of state jurisdiction on federal courts was subsequently held to be unconstitutional,¹⁹ the vesting of state jurisdiction in other state courts has survived. In 1992 a national jurisdiction for service of process and recognition of interstate judgments was established,²⁰ and in 2000 the High Court recognised for the first time a separate body of private international law rules for interstate and intranational disputes, one uniquely influenced by the text and structure of the federal Constitution.²¹

¹⁴ Australian Law Reform Commission, *Choice of Law*, Report No. 58, 1992, para. 5.2.

¹⁵ Compare *Patents Act 1890* (Vic) with *Patents Act 1899* (NSW).

¹⁶ *Potter v Broken Hill Pty Co Ltd* [1905] VLR 612, 634–5.

¹⁷ *Pedersen v Young* (1964) 110 CLR 162, 170 (Windeyer J).

¹⁸ See, for example, *Jurisdiction of Courts (Cross-vesting) Act 1987* (NSW) s 4(3).

¹⁹ *Re Wakim; Ex parte McNally* (1999) 198 CLR 511.

²⁰ *Service and Execution of Process Act 1992* (Cth).

²¹ *John Pfeiffer Pty Ltd v Rogerson* (2000) 203 CLR 503.

The *Potter* case: intellectual property and jurisdiction

The *Potter* decision

With these observations in mind it is now necessary to examine the *Potter* case in detail. As noted above Potter, after having discovered Delprat's competing process, brought an action in Victoria against BHP for infringement of both his Victorian and New South Wales patents. Specifically, Potter sought an injunction to restrain the defendant from infringing his New South Wales patent in its mines in New South Wales and damages for infringement so far incurred. In its defence BHP denied infringement of both of Potter's patents and argued that such patents were, in any event, invalid. BHP also alleged that Potter's action in respect of his New South Wales patent was not justiciable in Victoria.

The Supreme Court of Victoria held by a majority of two to one that the action in respect of the New South Wales patent could not proceed and this decision was unanimously upheld by a three-member High Court.

Before examining the judgments of the High Court a procedural point should be noted. Potter sued BHP in Victoria most likely because the company was incorporated and registered there under the local companies legislation. Because Potter had also filed suit for infringement of a Victorian as well as a New South Wales patent, it was no doubt convenient for him to consolidate both actions in the one Victorian proceeding inasmuch as they arose out of similar facts. While Potter could presumably have sued BHP in separate proceedings in New South Wales in relation to the New South Wales patent, this would have required him to show that BHP was amenable to the jurisdiction of that state's courts. In addition, the bringing of such separate and further proceedings in New South Wales would have imposed a highly onerous costs burden on Potter as an individual litigant suing what was, even then, a major national corporation. While today courts are very mindful of procedural burdens in cross-border litigation, especially where individuals are suing large transnational corporations,²² such concerns do not appear in the reasoning of the judges of the High Court in *Potter*.

The court ultimately found that Potter's action for infringement in New South Wales of a patent registered in that state was not justiciable in Victoria because the substantial question in the case was the validity of the patent. Although Potter himself had made no allegation regarding validity in his pleadings, the defendant had raised validity in its defence, which made this issue a critical question for the court to determine.

²² See, for example, *Regie National des Usines Renault v Zhang* (2002) 210 CLR 491 and *Diethelm & Co Ltd v Bradley* [1995] ATPR 41-388 (NSWSC), where Australian courts refused to stay personal injury actions brought against foreign corporate defendants on the ground that the Australian court in each case was not a 'clearly inappropriate forum' under the test in *Voth v Manildra Flour Mills Pty Ltd* (1990) 171 CLR 538. In both cases, the court felt that the Australian plaintiffs would suffer a denial of justice if forced to sue abroad, in *Diethelm* specifically because the plaintiff would be unable to join all its defendants in one proceeding.

The three judges of the High Court did, however, reach this result by two distinct, although related, paths. Griffiths CJ relied on the principle in the *Mocambique* case²³ to the effect that a question relating to the validity of a patent is analogous to a determination as to the title or possession of foreign land, an issue which is beyond the subject-matter jurisdiction of an Australian court. Crucial to his application of the *Mocambique* rule is the conclusion that patents for inventions are a form of ‘immovable property’ (with land being the paradigm example).

In the view of Griffith CJ:

as the patent right is the creation of the State the title to it must devolve, as in the case of land, according to the laws imposed by the State. [A patent also] has no effective operation beyond the territory of the State under whose laws it is granted and exercised.²⁴

The effect of a patent being classified as an ‘immovable’ is that it is regarded as closely associated with the territory of its creation and so is treated as a ‘local’ right, the validity of which must be adjudicated in the place of grant. Neither of the other High Court judges in *Potter* (Barton and O’Connor JJ) adopted this line of reasoning.

Griffith CJ relied on a further principle to deny justiciability of the action: the act of state doctrine. This doctrine provides that the court will not adjudicate upon the acts of a foreign state performed within the state’s own territory.²⁵ Here the grant of a monopoly, even though made by administrative authorities rather than the executive government, amounted to an unreviewable act of state. The two other High Court judges in *Potter*, Barton²⁶ and O’Connor JJ,²⁷ relied solely on the act of state doctrine to deny justiciability of the action, O’Connor J noting that for one state to rule on a monopoly granted by another would violate ‘the principles of international law which . . . recognise that the courts of a country will not inquire into the validity of the acts of a foreign state’.²⁸

What should be noted at this point is the very limited nature of the court’s decision: that the validity of a foreign statutory patent is not justiciable in the forum. The reasoning of the court should also be noted: only one judge concluded that the action was barred because foreign patents were ‘immovables’, while all three relied on the act of state doctrine as the basis of non-justiciability. Commentators have generally supported this limited reading of the *Potter* decision.²⁹ So

²³ [1893] AC 602.

²⁴ (1906) 3 CLR 479, 494.

²⁵ *Underhill v Hernandez* 168 US 250 (1897).

²⁶ (1906) 3 CLR 479, 504–5.

²⁷ *ibid.*

²⁸ *ibid.*, p. 510.

²⁹ See, for example, J Fawcett and P Torremans, *Intellectual Property and Private International Law*, Oxford University Press, Oxford, 1998, p. 284; L Bently, *Interpretation of Copyright Rules: The Role of the Interpreter – The Creation Function* (2005), available via <http://www.cipil.law.cam.ac.uk/>. But compare R Arnold, ‘Cross-border Enforcement: The Latest Chapter’ (1999) 4 *Intellectual Property Quarterly* 389, 408 (‘the better view is that statutory intellectual property rights are immovables . . . in Griffith CJ’s words’).

interpreted, the decision is defensible on at least two grounds. First, a court may understandably feel uncomfortable in reviewing the act of a foreign government on its territory because of the perceived intrusion upon the sovereignty of that state. That said though, a decision of an administrative official to grant a patent is unlikely to be as politically sensitive as determining the borders of lands between colonial empires or the legality of acts during a revolution and so the ‘act of state’ argument as applied to intellectual property should not be taken too far.³⁰

The second, stronger argument in support of the High Court decision is the question of effectiveness of any orders made: in the case of any findings as to the validity of the patent, the compliance and cooperation of the administrative authorities in the country of grant will obviously be crucial and may therefore require a determination by a local court.

An interesting question which arises is whether the High Court would have allowed Potter’s action to proceed had the pleadings been limited to the issue of infringement with no question of validity of the patent raised. Although the three judgments are not absolutely clear on the point, the judges’ repeated emphasis on their inability to review the ‘validity’ of the acts of a foreign state except where validity arises only ‘incidentally’ in the litigation suggests that a ‘pure’ infringement case may have been admissible. Although the court gives no example of an ‘incidental’ exception, an example may arise in an action for breach of licence or a suit for infringement where the court, as an implicit condition of giving relief to the plaintiff, assumes that the registered right was validly granted. If, however, validity is raised as a distinct pleading in the defence or counterclaim, then *Potter* would apply to bar jurisdiction.

Strictly speaking also, the act of state doctrine would not seem to be engaged in an infringement suit since such a claim necessarily focuses on the acts of the *parties* rather than any decision by a *government* authority. A similar point can also be made of intellectual property rights which are not based on registration, such as copyright, passing off and trade secrets. In all such cases there should be no objection to ruling upon either the *validity* or *infringement* of such rights since no foreign act of state is involved other than the operation of the law conferring such a right.

Moreover, giving a very wide interpretation to the *Potter* exclusion on enforcement of foreign intellectual property rights imposes an unreasonable burden on rights holders. In a world of increasingly global technology, infringement of rights can often occur simultaneously in many countries. Plaintiff rights holders therefore may wish to sue for multiple infringements, but obviously this will be impractical and unwieldy if separate actions have to be brought in each country of infringement. The need to consolidate infringement actions in one proceeding in one forum is therefore crucial in providing effective intellectual property

³⁰ See further R Garnett, ‘Foreign States in Australian Courts’ (2005) 29 *Melbourne University Law Review* 704, 718–19 for an argument that the act of state doctrine can in fact produce results which are antithetical to the notion of respect for the sovereignty of other states.

protection and, to the extent that *Potter* limits this capacity, it must be confined as far as possible.

The interpretation of *Potter* in later cases

Unfortunately in later cases (at least until recently) the apparent limitation of the *Potter* decision to questions of validity of registered rights was not appreciated and significantly wider interpretations of its scope were made. For example, in some cases courts have declared that *Potter* stands for the proposition that foreign statutory intellectual property rights in general are not justiciable.³¹ The reasoning underlying this view is that because all such rights are immovables, any action in relation to such rights, whether relating to ownership, infringement or validity, is necessarily 'local' and so barred. This approach is reminiscent of that of Griffith CJ in *Potter* and had the effect in one case that the court declined to hear an action seeking a declaration as to rights under US copyright in England.³²

In other cases courts have taken the position that *Potter* denies jurisdiction to hear foreign *patent infringement* claims.³³ While in none of these cases was this conclusion critical to the court's decision, it is significant that in one of the authorities, an application for an injunction to restrain infringement of a foreign copyright was refused.³⁴

By contrast, one current member of the High Court of Australia appears to have accurately interpreted the decision: '[*Potter*] says no more than that the grant of a patent is an act of sovereignty behind which the courts of another state will not go'.³⁵

Similarly, in a number of more recent decisions from England, New Zealand and Hong Kong there has been a reassessment of the rule in *Potter* to provide for more liberal enforcement of foreign intellectual property rights. The impetus for this reappraisal appears, in part, to have come from European developments.

The current position in European law under the Brussels I Regulation³⁶ appears to be consistent with the suggested interpretation of *Potter* above. The regulation applies where the defendant is domiciled in a member state of the European Union with such state being the presumptive place of personal jurisdiction.³⁷ However, under Art 22(4) of the regulation the courts of the member state of registration are granted *exclusive* jurisdiction in respect of actions concerning

³¹ *Tyburn Productions Ltd v Conan Doyle* (1990) 19 IPR 455; *Coin Controls Ltd v Suzo International (UK) Ltd* [1997] 3 All ER 45, 52.

³² *Tyburn Productions Ltd v Conan Doyle* (1990) 19 IPR 455.

³³ *Atkinson Footwear Ltd v Hodgskin International Services Ltd* (1994) 31 IPR 186, 190; *Tritech Technology Pty Ltd v Gordon* (2000) 48 IPR 52, 58.

³⁴ *Atkinson Footwear Ltd v Hodgskin International Services Ltd* (1994) 31 IPR 186.

³⁵ *Re Interlego AG and Lego Australia Pty Ltd v Croner Trading Pty Ltd* (1992) 25 IPR 65, 98 (Gummow J) (with whom Black CJ and Lockhart J agreed).

³⁶ Council Regulation (EC) No. 44/2001 of 22 December 2000 on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters (Brussels I Regulation).

³⁷ Article 2.

the validity of registered rights such as patents and trademarks. This provision applies where the question of validity arises either in proceedings to invalidate the right or as a defence to an infringement action.³⁸ It follows therefore, under EU law, that where an action involving foreign intellectual property rights arises other than one concerning the validity of registered rights, it may proceed in a court other than the country of grant (assuming that the rules of personal jurisdiction are otherwise satisfied).

Consequently, where the defendant is domiciled in an EU member state and the regulation applies, the rules of national private international law (including, in England, *Potter*) are not applicable. Yet interestingly, it was in exactly such a case, involving an action to enforce intellectual property rights under the law of another EU country, that an English court consciously sought to redefine the scope of *Potter*, presumably in contemplation of non-EU cases in the future.

*Pearce v Ove Arup*³⁹ involved an action in England for infringement of a Dutch copyright. After finding that the claim was justiciable in the forum under the almost identical predecessor to the regulation,⁴⁰ the court, obiter, also proceeded to reject the earlier mentioned wide interpretation of *Potter*. Significantly, Roch LJ stated that nothing in *Potter* requires justiciability to be denied over any proceedings concerned with the validity of unregistered rights. Indeed such a conclusion ‘has [no] place in a rational scheme of jurisprudence’.⁴¹ In the court’s view, therefore, *Potter* has no operation outside the field of registered rights.

Significantly, in the later English case of *R Griggs Group v Evans*⁴² (which concerned the validity of an assignment of foreign, non-EU copyrights) the court went even further, declaring that not only is *Potter* irrelevant to copyright cases but it also has no application to cases of ‘pure’ infringement more generally. Such cases would presumably be those involving registered rights where validity arises no more than ‘incidentally’ as opposed to when validity is squarely raised as a distinct pleading in the defence or counterclaim.

Next, there is the New Zealand case of *KK Sony Computer Entertainment v Van Veen*,⁴³ which was a suit for infringement of both local and foreign copyrights. In that decision the court, strongly persuaded by the *Pearce* decision, agreed that the *Potter* case must be confined to cases where title or validity is put in issue.⁴⁴ Consequently, there was no bar to an action for breach of foreign copyright proceeding.

Finally, there is the Hong Kong decision in *Esquel Enterprises v Tal Apparel*,⁴⁵ where the court followed the *Pearce* and *Griggs* cases in holding that an action for

³⁸ *Gesellschaft für Antriebstechnik mBH & Co KG v Lamellen und Kupplungsbau Beteiligungs KG* Case C-4/03 13 July 2006 (European Court of Justice).

³⁹ *Pearce v Ove Arup Partnership Ltd* [2000] Ch 403.

⁴⁰ Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, opened for signature 27 September 1968 (entered into force 1 February 1973).

⁴¹ [2000] Ch 403, 436. See also, very recently, to the same effect: *Lucasfilms Ltd v Ainsworth* [2008] EWHC 1878 (Ch).

⁴² *R Griggs Group Pty Ltd v Evans* [2005] Ch 153.

⁴³ (2006) 71 IPR 179.

⁴⁴ *ibid.*, para. 21.

⁴⁵ *Esquel Enterprises Ltd v Tal Apparel Ltd* [2006] HKCU 184.