Dear Sir or Madam,

Intellectual Property Arrangements
I have pleasure in enclosing two submissions in response to the Productivity Commission’s Issues Paper on “Intellectual Property Arrangements” which have been prepared by the Competition and Consumer Committee and the Intellectual Property Committee of the Business Law Section of the Law Council of Australia respectively. The Committees are two of the fifteen specialist committees and one working party established within the Business Law Section to offer technical advice on different areas of law affecting business. Each of these committees approaches issues of law reform and practice from a different perspective, which reflects the primary focus of their respective committees.

The submission prepared by the Competition and Consumer Committee is more general, providing high level commentary only, whilst the submission prepared by the Intellectual Property Committee is more detailed and addresses some of the issues more specifically.

The Business Law Section of the Law Council does not consider that the two approaches are inconsistent in the context of a response to the Productivity Commission’s Issues Paper. The Business Law Section believes that the issues raised in the two submissions should be provided to the Productivity Commission to assist it in formulating its final report.

I confirm that representatives from the Competition and Consumer Committee and the Intellectual Property Committee would be pleased to meet with the Productivity Commission should that be considered appropriate. The Chair of the Competition and Consumer Committee, Caroline Coops, can be contacted by phone on 03-9643 4097 or...
via email: caroline.coops@au.kwm.com. The Chair of the Intellectual Property Committee, Sue Gilchrist, can be contacted by phone on 02-9225 5221 or via email: sue.gilchrist@hsf.com

Yours faithfully,

Teresa Dyson, Chairman
Business Law Section
Response to the Productivity Commission Issues Paper, Intellectual Property Arrangements

Submission by the Competition and Consumer Committee of the Business Law Section of the Law Council of Australia

1 December 2015
1. The interest of the Competition and Consumer Committee

The Competition and Consumer Committee of the Law Council of Australia is concerned with competition and consumer law. Its members consist of leading lawyers, economists and regulators with interests in these areas. Although the Inquiry into Australia’s Intellectual Property Arrangements is broad-ranging, the interests of the Competition and Consumer Committee are directed to the impact of intellectual property law on market power and consumer protection.

In this submission, we shall make some general observations about the relationship between intellectual property law and market power. However, we wish to indicate our interest in commenting on any particular proposals that the Commission may be considering that bear on market power or consumer protection.

2. Intellectual Property Rights and Consumer Protection

The essence of the consumer protection provisions of the Act is set out in s. 18 of the Australian Consumer Law (previously s. 52 of the Trade Practices Act), and similar provisions in the States and Territories which prohibit misleading and deceptive conduct. This prohibition may have an impact both on the proper use of intellectual property and the misuse or infringement of intellectual property rights.

3. The justification of intellectual property rights

Intellectual property rights are part of a more-general system of property rights. These rights are critical for the efficient functioning of a market economy. Although intellectual property has certain characteristics that require intellectual property rights to differ from other property rights, the underlying economic rationale is the same.

There are two ways in which having a well-functioning system of property rights is socially valuable. First, property rights are needed to ensure that trade takes place in a way that maximises social value. Second, property rights provide incentives to encourage the creation of socially valuable assets. These two outcomes can be classified as the allocative and dynamic efficiency effects of property rights.

These general justifications for property rights apply also to intellectual property rights. Intellectual property rights are required in the interests of allocative and dynamic efficiency. Intellectual property rights promote allocative efficiency by clarifying who needs to trade with whom if rights are to be allocated to those who value them most highly. Intellectual property rights promote dynamic efficiency by ensuring that those who contemplate investing in the creation of intellectual property have appropriate financial incentives to do so.

4. Intellectual property rights and market power

The owners of intellectual property are at times described as having ‘monopoly’ rights. This terminology can create confusion in the minds of both lawyers and economists. When intellectual property rights are described as monopoly rights, they are merely

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referring to certain intellectual property rights involving a right to exclude – as, indeed, any property right is a right to exclude. The legal characterisation of certain intellectual property rights (such as patents or designs) as conveying a monopoly does not mean that the owner of an intellectual property rights has any particular ability to appropriate a monopoly-type return.

This point can be seen by considering the incomes of writers or performers of popular songs. There are many thousands of writers and performers of popular songs; and most of these people own various rights to the music they have written or recorded. Nevertheless, the overwhelming majority of these musicians are quite poor. They have rights to prevent copying; however, these rights give them no ability to earn high rates of return on the investments they have made or to charge “monopoly prices” for the products they have produced.

Although there is no necessary link between intellectual property rights and market power, the ownership of intellectual property (as with the ownership of a railway line) can lead to market power problems in certain circumstances. These problems are of two principal kinds.

The first kind of market power problem could arise when a person attempts to gain market power by aggregating intellectual property rights to close-substitute products or processes. Problems of this kind have arisen with pharmaceutical drugs whose patents are about to expire. In principle, problems of this kind can be dealt with under competition laws that proscribe acquisitions which substantially lessen competition. The first-best solution to this problem seems to be for competition agencies to use competition law to prevent acquisitions that lead to undesirable aggregations of market power.

The second kind of market power problem that could arise is when the owner of the intellectual property rights attempts to leverage the market power deriving from an intellectual property right by foreclosing on rivals in its principal or in a related market (generally an upstream or downstream market). Although each case turns on its particular facts, in principle, the allegations generally involve the misuse of market power. However, these concerns they could apply just as well to the owner of a railway line as to the owner of intellectual property.

One solution to problems of this second kind would be for competition agencies to enforce laws that proscribe the abuse of market power. Another solution may be to require access to a bottleneck service that is protected by an intellectual property right. This suggests that the laws relating to compulsory licensing might have been investigated by the Productivity Commission. However, this does not seem to be raised by the Commission’s Issues Paper. We encourage the Commission to consider this area of the law as part of its overarching review.
Response to the Productivity Commission Issues Paper, Intellectual Property Arrangements

Submission by the Intellectual Property Committee of the Business Law Section of the Law Council of Australia

1 December 2015
The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (IPC) welcomes the opportunity to make a submission in response to the Productivity Commission Issues Paper: Intellectual Property Arrangements (Issues Paper). This submission addresses specific questions raised in the Issues Paper, as well as at the Productivity Commission's Economic Roundtable which took place in Melbourne on 21 October 2015 (Roundtable).

Although the IPC is not able to offer opinions based on statistically collected data (except where specifically identified below) or an econometric analysis, the members have cumulative experience in thousands of disputes and negotiations of commercial agreements relating to intellectual property (IP). As the most important innovations are by their nature most likely to be the subject of commercial agreement and disputes, these cases and agreements together cover many of the most commercially important innovations made or used in Australia.

Commercial negotiations, and particularly litigation, commonly involve obtaining evidence or instructions from inventors, independent experts (both scientific and accounting) and commercial decision-makers in relation to IP. Thus IPC members are required to have a good understanding of the process of innovation and commercial decision making processes relating to IP. Its members are involved on both sides of transactions - acting for IP rights holders and those challenging those rights and for licensors and licensees. In many ways they are in a unique position to provide this information.

The IPC considers that as a result it can make a useful input. The following observations deal with specific topics relevant to the questions raised and with matters raised at the Roundtable.

As a preliminary matter, the IPC wishes to make some observations about the scope of the Commission’s terms of reference. There is a vast breadth of issues falling within the Commission’s remit, in particular by comparison with IP law reform initiatives in the past, which have been more targeted in their approach. This, no doubt, has the advantage of encouraging consideration of overarching goals, but also gives rise to the risk that no one issue can be dealt with in sufficient detail and depth to produce concrete or specific recommendations, and consideration of any particular issue may not be able to be advanced beyond law reform previous efforts. In light of this, in many respects, it may be that the Commission will not in the first instance be in a position to provide a solution on a particular point, but rather will be in a position to identify issues for further consideration. This submission accordingly attempts to identify some of those areas; it does not purport to address any particular area in exhaustive detail.

1 Principles

The Issues Paper asks at page 15 if there are principles other than those set out in the Issues Paper that should be considered when assessing the IP rights system.

The IPC believes that the general principles outlined in the Issues Paper and arising in the Roundtable suffer from several apparent omissions and problems. We discuss these, and other principles that should be considered, below.

1.1 Terminology

There was discussion at the Roundtable as to whether IP is a right or privilege and whether it is proprietary in nature or a mere licence.
Whatever the philosophical analysis, the legislation in relation to each form of IP (other than moral rights) is express that IP is personal property and that it confers a bundle of enforceable statutory rights. The term “IP right” is therefore an accurate description, and IP rights have been specifically held to be property for the purposes of section 51(xxxi) of the Commonwealth of Australia Constitution Act 1900 which prohibits the acquisition of property without just compensation.

1.2 Proportionality to effort

The Issues Paper raises the question as to whether IP provides rewards that are proportional to the effort to generate IP (eg, at page 18). Trying to make IP protection proportional to innovative effort is an approach which long experience has shown to be unhelpful in a number of respects.

Innovation takes place in a number of ways – it can be a flash of genius, or incremental progress from applying effort to build on and improve existing knowledge. Market judgement and skill rather than mere effort and cost are almost always an important factor. A Harry Potter novel may be produced with less effort and cost than a worthy economics text which struggles to sell a few hundred copies, or a thesis which sits unread by anyone at all.

Aiming to calculate and compensate effort and cost that goes into the innovation rather than the value of the outcome also has the perverse effect of rewarding inefficiency, lack of talent, poor insight and poor market judgement.

As a matter of practicality lawyers have also observed the great cost and difficulty in obtaining evidence of effort going into the making of an innovation. Patent extension cases under the Patents Act 1952 (Cth) routinely cost several million dollars (in 1980's dollars) much of which was directed to historical, accounting and economic inquiries about the effort that went in to making the invention. It would be a retrograde step to return to that world.

If, contrary to this view, an effort based approach is adopted, the approach would need to take into account the false leads and failed research of the inventor or author and also the effort of the many other inventors and authors in Australia and elsewhere in the world who have tried to create a valuable IP right (particularly one which was associated with a marketable product) and failed.

1.3 Technology-specific legislation

The Issues Paper raises questions about the desirability of technologically specific IP policy and legislation. The IPC would advocate the view that any ultimate approach should be as far as possible technology neutral, and that any technology based analysis, while it may be of academic interest, is likely to be rapidly outdated and of little value in driving sensible long term legislative approaches. An example of how technology specific provisions become rapidly outmoded is the videotaping exception in copyright law. Similarly, the current definition of “broadcast” in the Copyright Act is tied to the definition of a “broadcasting service” within the meaning of the Broadcasting Services Act 1992 (Cth), effectively excluding many forms of audio and video streaming services. This has the effect of narrowing the exceptions to infringement available to streaming service providers, as well as the copyright protection available to audio and video content which is transmitted exclusively via the internet.

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1 See, eg, Trade Marks Act 1995 (Cth) (Trade Marks Act), section 21; Copyright Act 1986 (Cth) (Copyright Act), section 196; Patents Act 1990 (Cth) (Patents Act), section 13.

2 See, eg, Trade Marks Act, section 20; Copyright Act, section 31; Patents Act, section 13.

3 See Australian Tape Manufacturers Association Ltd v The Commonwealth (1933) 176 CLR 480, 527; Commonwealth v WMC Resources Ltd (1998) 194 CLR 1, 70-71; Attorney-General (NT) v Chaffey (2007) 231 CLR 651, 664.

4 See section 110AA of the Copyright Act.
Secondly, technology specific provisions are almost always circumvented in ways which mean they do not achieve their purpose but simply add great complexity and expense to the system. For example, for some time methods of medical treatment were not patentable in Europe. In response, "Swiss style" claims directed to "using a compound to make a medicament to treat a condition" were developed.5 This provided the same protection but in a way which was less transparent and was costly to litigate.

Thirdly there is an innovative and commercial lifecycle affecting IP rights which means that attempts to legislate in a technology-specific way tend to follow the game, and then come into effect when the issue is largely resolved. That is because when technology is in a rapid transition phase, a number of factors converge to give rise to a surge in disputes. First, there is great scope for new innovation and for the leading researchers and businesses at the forefront of innovation to obtain wide patents and other IP rights, and to develop large portfolios. Secondly, many of the researchers in a new field may not be familiar with the patent system. This leads at one extreme to a reaction against patents being available in the field simply because they were not used in that field before. Other researchers at the other extreme may have unrealistically high expectations about the returns patent or other IP protection can provide. Because the technology is new, patents offices and courts take time to come to grip with new concepts involved and outcomes are less predictable. All of the factors tend to lead to a temporary upsurge in disputes and also often lead to special pleadings seeking technology-specific exceptions or rules.

Some examples, of fields where this has occurred are:

- Use of genetically modified organisms for biosynthesis.
- Genetic diagnostic tests.
- Software and business methods.

In an example which shows this is not limited to headline technologies, there was a surge in patenting and litigation in relation to rapidly changing technology in the field of self-loading garbage trucks in the 1990s.

Globally, governments have mostly resisted (or been restrained by international agreement) from intervening, and these matters have been resolved commercially or in the courts in the absence of legislative change.

In the IT area an example outcome is the FRAND system. When standards essential technology is adopted, it is a condition that the owner of the relevant IP must licence it to all on fair and reasonable terms. Whilst imperfect and whilst there are still disputes, the number of disputes in relation to IT innovation that have arisen in Australia is relatively small.

An exception is the patent troll issue in the US (and to a lesser extent in Australia) which is discussed further below. As noted there, it is suggested it represents a problem with the litigation system rather than the IP system.

### 1.4 Benefit of IP

The Issues Paper asks for evidence that patents provide rewards that are proportional to the effort to generate the related IP (page 18). As noted above, the IPC submits that the value of IP should be considered in terms of economic benefit of the innovation, not the effort of making the innovation. The methodology needs to consider the value derived by the Australian economy including end users.

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5 See G 05/83 EISAI/Second medical use OJEPO 1985, 64.
A technology specific example of this sort of methodology can be found in a report regarding the value resulting from the use of statins. This report concludes that US consumers have paid in the order of $300 billion for statins (pre patent expiry much of this can be attributed to the value of the IP right) but the US economy has received $1.3 trillion in benefit in terms of reduced strokes and heart attacks and consequential costs and medical expenses. Note that in this particular case (in common with pharmaceutical products broadly) there is evidence that patent protection was required for these products to be developed or brought to market at all. The IPC does not wish to endorse the details of the analysis, and whether the analysis or the $1.3 trillion figure is precisely correct is not a matter on which the IPC is qualified to comment, but it is clear that the benefit figures can be very large. Pro rata, it would appear the Australian benefit figure from one innovative area alone, in the form of statins, would be in the order of $40 billion.

This is but one example. The Australian economy gets the benefit of IP embodied in many imported products such as faster computers, improved software, new drugs, improved motor vehicles, aircraft and plant and equipment and so on.

1.5 Importing IP

The fact that Australia is a net importer of IP does not mean that Australia does not necessarily get good value for the IP it imports. Nor does it mean that Australian researchers and manufacturers do not benefit from export of Australian technology made possible by the global IP system.

As with many other goods and services it will often (given the relative size of Australia’s economy) be much more economically efficient to import IP rather than to try develop it independently here. Ordinarily in a market which is reasonably informed people will not pay to import IP which is not good value at least to them.

A rule of thumb in many licensing negotiations, including in-licenses to Australia, is that 25% of the profits derived by a licensee as a result of the use of the IP goes to the IP owner and 75% to the licensee. Of course that calculation does not account for the additional benefit to the end consumer, or general economic benefits to the Australian economy flowing from improved efficiencies, but it is suggested that it can be assumed, at least, that that will ordinarily exceed the price paid for the IP. The 25% ratio will of course be different and higher for products like pharmaceuticals with very high costs to get to market and can be much lower for incremental improvements to existing IP or where multiple licences are required.

1.6 Parallel importation

The IPC has long supported empirical inquiry into and reforms in relation to parallel importation of trade marked and copyright goods. In particular, section 123 of the Trade Marks Act, relating to parallel imports, needs review. The onus is currently on the parallel importer to prove that the product was manufactured under licence from the trade mark owner. This is often impractical for someone who has merely purchased

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8 Annexure A to this submission.

9 The IPC submits that patent protection is not amenable to permitting parallel importation because patents are geographic and the term varies from place to place. Compulsory licensing provisions also exist in many jurisdictions.

10 Paul’s Retail Pty Ltd v Lonsdale Australia Limited [2012] FCAFC 130.
products in a foreign market to prove. The current drafting of section 123 is also the source of uncertainty where an overseas manufacturer or trade mark owner registers its trade marks in Australia in the name of a related entity or local distributor. In many cases, this will preclude the clear application of section 123, and is becoming more frequently used as a means to circumvent the statutory intention of the section and control parallel imports. A simpler test is whether the goods are genuine in that they have originated from the trade mark owner or its licensee. This would be consistent with the principle that a trade mark is a badge of origin, not of geographic control.\textsuperscript{11}

1.7 Designs

The Issues Paper asks if the designs rights system is cost effective for users (at page 22). The Issues Paper also refers to the review of the designs system undertaken by the Advisory Council on Intellectual Property (\textit{ACIP}), and in particular to the conclusion in ACIP's Final Report that the current system 'is expensive for what it offers, and is, as a result, neglected by designers who find it does not offer the rights they need'. There are many useful proposals in this report that would improve the existing legislation, including some necessary amendments to bring the \textit{Designs Act 2003} (Cth) into better alignment with the Copyright Act. Further, consideration of an unfair copying right might well ensure protection of lesser, but still important, design innovations.

Specifically, while IPC considers that the registered designs system is a suitable means for protecting a large number of designs, there is a concern on the part of the IPC that the registered designs system may not be a suitable means for protecting all designs worthy of protection. Thus the IPC considers that Australia may benefit from the introduction of an unregistered design right (\textit{UDR}) somewhat similar to such a right existing in the United Kingdom and Europe. Such a right may be of relevance to industries where designs are plentiful, have a short commercial life and in which unauthorised copying is said to be prevalent. For these reasons, IPC has previously supported and continues to support an inquiry to determine whether Australia should introduce UDR protection and, if so, what kind of UDR protection.\textsuperscript{12}

1.8 Trade Marks

The Issues Paper asks if trade marks are operating as an effective and efficient method for firms to protect their brand and reputation (at page 23).

As a general rule, apart from the question of parallel importation and a number of technical issues under review, trade mark legislation is operating effectively. One issue is whether a unified Australia-New Zealand trade mark system should be adopted. This would reduce filing and enforcement transaction costs by eliminating duplication, as well as facilitating trans-Tasman trade which would otherwise be restricted by different trade mark ownership statuses. At a more broad international level work to further develop international mechanisms such as the Madrid protocol would also reduce transaction costs and enhance trade.

A more specific issue is whether the legislation deals adequately with technical non-trade mark use. For example persons other than the trade mark owner may register business names or web domains using the trade mark. This can lead to deception of consumers or loss or diversion of trade in circumstances where there is no technical infringement.

Further, an area in which Australian trade mark law differs from some major trading partners (notably the US and Europe) is in the absence of any anti-dilution norm. The IPC submits that consideration should be given to whether Australian law in this respect appropriately places limits on unfair competitive practices or whether it presently draws the boundary adequately. Given that this has

\textsuperscript{11} Scandinavian Tobacco Group Eersel BV v Trojan Trading Company Pty Ltd [2015] FCA 1086 (9 October 2015).

\textsuperscript{12} Annexure B to this submission.
become a significant aspect of trade mark law internationally, while this has not previously been the subject of specific legislative consideration in Australia, it would be appropriate to give detailed consideration to whether an anti-dilution norm should be introduced on the one hand, or rejected after proper analysis on the other.

1.9 Importance of IP to development and marketing decisions as well as initial innovation

At page 8 of the Issues Paper, the question is asked whether IP rights "encourage genuinely innovative and creative output that would not have otherwise occurred".

This is a relevant but incomplete question because it ignores the importance IP has, in addition, to the development and marketing of products based on new innovative and creative output. Typically the making of an innovation has been described as contributing in the order of 1% of the cost of getting a new product to market. IP protection is important not only to the innovation process but to the development and marketing of new products. This is of course most starkly illustrated with pharmaceuticals, where there is no incentive for a manufacturer to take a new drug which is not patented through the expensive process to get it to market. But it is true in principle of any innovation where there is a significant cost of getting to market, but the product is relatively easy to copy and others can free ride on the innovators work in developing the product and creating a market.

The existence of saleable IP rights are also important to the ability of researchers such as universities to licence or sell their innovation to a third party who may have expertise in developing and marketing it.

1.10 IP is global

The Issues Paper raises a number of questions in relation to Australia's international IP obligations and principles that should be used to guide decision making for future international negotiations (page 30).

The fact that IP is global in nature is starkly exemplified by the fact that most IP in Australia is owned by foreigners and most IP owned by Australians exists outside Australia. To try to isolate Australia's position from global commerce is inappropriate in many ways. In particular any assessment needs to allow for the benefits to the Australian economy flowing from the global IP system, including the fostering of innovation in other countries which subsequently comes to Australia.

There appears to be an implicit suggestion that Australia should provide as little IP protection as it can get away with because it is such a small part of the global economy that it does not matter to global innovation whether Australia provides adequate IP protection or not. It should be considered what the consequences would be if every country took that view. It should also be considered whether it is realistic or desirable in terms of international relations. For example, in recent negotiations it appears, at least from media reports, that Australia relied on a relatively strong IP system to obtain concessions in other areas.13

1.11 IP and competition

The Issues Paper asks at page 12, "What are the longer term effects of the IP system on competition and innovation?"

There was a view expressed by some at the Roundtable to the effect that competition policy is an end in itself and that everything must be viewed through a competition prism. However, competition policy is, no more or less than IP protection, a means to an end, namely the promotion of economic growth, prosperity and wellbeing. In the case of IP protection, that is through promoting innovation.

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That is ultimately a major driving force of economic growth. Indeed, historically the existence of a functioning IP system appears to have been fundamental to rapid development of innovation, during the industrial revolution and subsequently.\textsuperscript{14} A competition framework came much later.

IP rights are expressly and deliberately anti-competitive to the extent that others are shut out of a particular competitive act but they are not, however, anti-competitive in that people can compete to acquire IP rights first (e.g. by being first to file a patent). They can compete by developing alternative technology and, of course, on patent expiry they can compete including by using the whole of the patentee’s invention.

If a person is given an expressly anti-competitive right it should not be anti-competitive to licence it rather than to exercise it directly (s51(3)). As submitted by the IPC in its Submission in Response to the Competition Policy Review Final Report,\textsuperscript{15} “[a]n intellectual property owner can only obtain a return on their investment by commercialising the innovation themselves, or by permitting a third party to do so on their behalf… [I]t is inconsistent to use IP laws to stimulate innovation and then subject any dealing in commercialising that innovation to the competition test. Doing so will in all likelihood reduce post innovation returns and at worst, result in market failure.”\textsuperscript{16}

1.12 Small versus large

A suggestion raised at the Roundtable was that large players simply crush small players who acquire IP rights. This can occur but it is not consistent with IPC experience or logical business practice that it is what usually occurs. A strong patent or other IP right protecting an important innovation is a valuable asset. There will usually be someone who will acquire and defend it.

Many large corporations have large patent portfolios, and sometimes an important innovation is protected by a “patent thicket”. These portfolios can be and are deployed against competitors. A well-known example is the international legal battle between Apple and Samsung regarding the design and technological features of their respective smartphones and tablets.

However, this should not always be seen as an unequal battle. In the generic drug area there are many generic companies which are well funded and active in trying to break patent protection. In the IT space major cases have been between giants.

Importantly the patent system provides one of the few ways for a small player to get into these markets either by taking on the major players or by selling or licensing their IP.

There have been historical cases where corporations with a heavy capital investment in an existing technology fight disruptive technologies including by trying to crush competitive IP or to “buy and bury” competitive IP. Historical examples are the music industry in relation to internet distribution and Kodak in relation to digital photography (in fact invented by Kodak). This business model usually works poorly in the longer term as can be seen by the fate of Kodak (insolvent)\textsuperscript{17} and the record houses of the 1980s which no longer exist or have a shadow of their former importance.\textsuperscript{18}


\textsuperscript{15} Annexure C to this submission.


retrospect both would have better embraced rather than tried to crush new IP. IBM narrowly avoided the same fate by a belated and sharp change of policy.\(^{19}\)

Many initially small players use IP to leverage themselves into rapidly growing business (e.g. Atlassian)\(^ {20}\) and many large businesses acquire or take licenses from small innovators.

A significant factor influencing the power balance between small and large competitors is the cost of litigation, rather than the substantive IP laws themselves. This is addressed further below. It may also be noted that litigation funding is available for the smallest player to take on a strong case. And litigation insurance is also available for potential defendants.

**Patent non-practising entities**

There are issues which have been seen in the United States with patent non-practising entities (NPEs; sometimes called “patent trolls”). Some of these issues may be seen as a failure of the United States litigation system rather than a problem of the patent system, driven by factors including:

- lack of costs orders against unsuccessful parties
- contingency fees (used in almost all NPE cases); and
- trial procedures (such as jury trials) which appear to favour plaintiffs.

These issues need to be borne in mind in the context of consideration of changes to the litigation system.

There is also patent NPE litigation in Australia, which the Federal Court is finding challenging to deal with, however this is also more a litigation management issue than a patent system issue.

It is important to bear in mind that an acceptance of IP rights as property rights, as enshrined in Australian IP legislation, means that freedom of property and freedom of contract principles permit free dealing in IP rights as property rights, and this carries with it the consequence that the owner of an IP right is free to exercise the full extent of those rights, including by enforcing those rights against others. An IP owner may gain a return on its innovation on selling or licensing its IP rights. It would be undesirable to interfere with rights of freedom of property or freedom of contract to attempt to solve a potential problem, which has largely not been realised in Australia.

1.13 **Moral rights**

Moral rights legislation imposes a substantial transaction cost in copyright assignment and licensing contracts. All prudently drafted licensing and assignment agreements need to deal with this issue. Because the right is not assignable indemnities and waivers are required. The purchaser of copyright works is still at risk of being unable to use the asset it has acquired without restraint.

However provision for moral rights is now embodied in multiple layers of international treaty and it does not appear to be likely to be useful to review those rights.

1.14 **Copyright term**

The term afforded copyright (the life of the author plus 70 years) is on any rational basis too long in terms of providing an incentive for the creation, development or marketing of works. Again, however, this term is required by international treaty.

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1.15 The institutional landscape

IP matters are most commonly dealt with at first instance in the Federal Court. With the Federal Court’s recent adoption of the National Court Framework and related reforms, the Federal Court has recently committed to facilitating prompt and consistent determinations of IP cases by Judges experienced in the area. With many procedural elements currently under review, the IPC considers it premature to comment further in this regard.

More broadly, the possibility of a second court level or alternative dispute mechanisms for patent cases has been ventilated in the Advisory Council on Intellectual Property’s final report of its review of post-grant patent enforcement strategies\(^21\) and the proposals may warrant consideration. One example of a successful second tier court for IP matters has been the Intellectual Property Enterprise Court in the United Kingdom which has a maximum cap of £500,000 recovery for damages/profits, a maximum costs exposure of £50,000, a two day limit on the length of the trial and active case management. We understand that this court has been successful in providing access to justice, especially for SMEs, in circumstances where the costs associated with a proceeding in the High Court would otherwise be prohibitive.

In copyright and trade mark matters, the Federal Circuit Court acts as a second court tier, but has been only partly effective and is not frequently utilised, largely because it has adopted procedures that are essentially the same as the Federal Court, rather than simpler procedures. In patent cases there is no second tier court system at all.

A particular issue is how to deal with a minor infringement case in a quick and cheap but fair way without putting a potentially very valuable asset such as a patent or trade mark at risk in the absence of full and detailed consideration. Part of the solution might be to allow invalidity to be raised as a defence but without giving the tribunal a right to revoke.\(^22\)

Drawing on the European system, it could also be considered whether the procedural option available could include technology expert members on a second tier tribunal to avoid the need for expert evidence, which may again reduce cost and complexity of litigating smaller IP matters.

1.16 Review of IP legislation

Patents

The patent system has recently been subject to a detailed review under the Raising the Bar reforms.\(^23\) This had the intention of aligning Australian requirements to those of other countries – thus reducing transaction costs – and increasing the bar to patentability in order to reduce the number of invalid patents which are granted, by extending the scope of prior art that can be considered for obviousness purposes and by narrowing the scope of permitted claims by increasing the requirements for support. The importance of these factors should not be underestimated and the IPC submits that these reforms have achieved a sensible balance. A further general review at this time is therefore unnecessary and premature as this balance appears to have been achieved, but – to the extent that it takes time to assess the full benefits of the Raising the Bar reforms – may be required at a later stage.

Particularly in recent years, the review process by IP Australia has been consultative and deliberative and has included consideration of economic issues (including the appointment of an economist).

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\(^22\) An example of this is the Canadian Patented Medicine Notice of Compliance Regulations SOR/93-133.

\(^23\) Intellectual Property Laws Amendment (Raising the Bar) Act 2011 (Cth).
Submission to the Competition Policy Review Draft Report

Unfinished steps include compulsory licensing, notification procedures for generic TGA applications and potential for harmonisation of Australian and New Zealand Patent law including the option of a single trans-Tasman patent which would reduce transaction costs and enhance trade in patented goods. Continued progress to more general international harmonisation warrants consideration, although the IPC notes that Australia has already joined the Global Patent Prosecution Highway and only last month signed a Memorandum of Understanding with the European Patent Office regarding bilateral cooperation.

Copyright

In the field of copyright, the ad hoc process of copyright law reform has led to an unsatisfactory patchwork legislation with outmoded provisions relating to outdated technology which requires a more general review. Further the procedures for amendment of copyright law require review.

Legislation such as the Copyright Amendment (Online Infringement) Act 2015 (Cth) was introduced directly into parliament without any prior review process. To the best of the IPC's knowledge there was no economic analysis of the effect of that legislation despite relevant concerns about the extent to which such legislation imposes costs on intermediaries such as ISPs and places burdens and restrictions on non-infringing consumers and web site hosts rather than being directed at the true parties, namely the IP owner and the alleged infringer, as well as concerns about excessive breadth and potential for abuse.

At the same time there have been multiple reviews of copyright law which appear to have been ignored. It would be desirable if the government would respond to considered reform recommendations that have been made.

As an institutional matter it may be worth considering the implementation of a single IP Office under a single Minister responsible for IP, as is the case in the UK, so as to ensure greater coordination between the different IP systems, for example as between copyright and designs, trade marks and copyright, or copyright and patents (especially in relation to IT matters). This would provide more opportunity for policy and review to be undertaken in a more holistic way and would assist in overcoming the gaps that presently arise between having these matters deal with by different (and changing) departments of government. The IPC regretfully notes the recent demise of ACIP and the earlier dissolution of the Copyright Law Reform Committee.

Regardless, the IPC submits that all legislative changes in the IP area, including copyright, be subject to a prior review process before being introduced into parliament. In any event, consideration should be given to the need for a comprehensive review of the whole of the Copyright Act (see further below at section 2.2).

2 Areas that require consideration and change

Contributors to the review have been asked to identify specific areas that should be considered in light of the Productivity Commission’s goals for increased efficiency and balance. Specific areas are dealt with below. It is important to recognise that each of the areas below involves complex interactions and potential for unintended consequences if dealt with in isolation from the legislative landscape as a whole as well as international obligations. Neither this submission, nor it is submitted any recommendation by the Productivity Commission, should go further that identifying areas for detailed review.

2.1 Patents

As discussed above at section 1.16, the patent system has recently been subject to a detailed review under the Raising the Bar reforms and the IPC submits that these reforms have achieved a

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reasonable balance. There are some technical problems that are the subject of separate submissions which do not relate to the substance of this inquiry.\(^{25}\)

The Issues Paper also asks if the patent system is sufficiently flexible to accommodate changes in technology and business practices (at page 18). The patents system does not presently suffer from technology-specific issues, as outlined in section 1.3 above. Moreover, the current patent system is consistent with Australia’s international treaty obligations, so any proposed changes are constrained in this regard.

There are, however, some outstanding issues within the patent system that should be resolved.

(a) Compulsory licensing

The unfinished compulsory licence and Crown use provisions. These laws have recently been amended to give effect to Australia’s obligations under the Trade-Related Aspects of Intellectual Property Rights (\textit{TRIPS}), including by incorporating mechanisms by which compulsory licences for patented pharmaceutical inventions may be sought and granted to enable the manufacture of a pharmaceutical product in Australia for export to an eligible importing country.\(^{26}\) Other proposals that should be considered are the clarification of the Crown use exception in the Patents Act.\(^{27}\)

(b) Notice of generic applications

In its submission in relation to the Pharmaceutical Patents Review, the IPC submitted that the patent system would benefit from provisions stipulating that notice is to be given to pharmaceutical patent owners as soon as a generic application is filed so as to bring forward any potential litigation and minimise the risk of generic launch being unnecessarily delayed by injunctions.\(^{28}\) It appears this may now be required by the TPP in any event.\(^{29}\)

Developing a trans-Tasman patent and continued alignment with international principles and procedures are matters warranting consideration.

2.2 Copyright

(a) Technology-specific provisions

The Issues Paper asks if current copyright laws remain ‘fit for purpose’ (at page 20). The IPC submits that the technology-specific provisions of the Copyright Act, as discussed in section 1.3 above, warrant a rewrite of the Act, as far as possible in a non-technology specific way.

(b) Policy review and reform

As discussed above at section 1.16, the process of copyright law reform has been reactive, particularly as industries lobby for reforms. There should be a proper, contextual review of any proposed reform and a coordinated policy process.

(c) Fair use exception

\(^{25}\) The IPC is developing a submission on technical issues with the ‘best method’ requirement.

\(^{26}\) See Annexure D to this submission.

\(^{27}\) Ibid.

\(^{28}\) See Annexure E to this submission.

The Copyright in the Digital Economy Report\textsuperscript{30} recommended sensible changes with regards to implementing a new fair use defence to copyright infringement. These changes should be considered by government.

We also refer to IPC’s earlier submissions in this regard.\textsuperscript{31}

(d) Parallel importation

The IPC submits that the Commission should consider the issue of parallel importation in relation to copyright including in relation to software, and corresponding digital circumvention provisions such as geographical coding which indirectly reinforce restrictions on parallel importation.

Any decisions on any of these matters should, however, be made on the basis of proper consideration and empirical evidence.

2.3 Trade Marks

Apart from the parallel import issues discussed above at section 1.6 and issues as to non-trade mark use at section 1.8, the Trade Marks Act is generally operating effectively.

However, the cost of the trade mark system for users could also benefit from consideration of the establishment of a trans-Tasman registration system and the simplification and expansion of international registration options such as the Madrid procedure.

2.4 The institutional landscape

The Issues Paper asks for submissions in relation to reforms to public institutions involved in defining, allocating and enforcing IP rights in Australia (at page 27). It also asks what improvements could be adopted from overseas approaches, how Australian firms can enforce their rights internationally and what features of the current enforcement system could be improved (at page 28).

Proposed changes to the court system and the legislative review framework are discussed above at sections 1.15 and 1.16.

Greater efficiency could be achieved by considering an increased alignment with international norms so as to reduce the burden of specific registration requirements peculiar to Australia and facilitate international trade in IP and products and services protected by IP. In the shorter term, the IPC suggests that consideration should be given to establishing a common patent and trade mark systems with New Zealand.


\textsuperscript{31} See Annexure F to this submission.
Dear Professor Harper,

Policy Review – Parallel Imports of Trade Marked Goods


2. The IPC notes that question 2.9 of the Competition Policy Review Issues Paper makes specific reference to parallel imports: 2.9 Should any current restrictions on parallel importation be removed or altered in order to increase competition? 

3. Submissions no doubt will be made to the panellists undertaking this review relating to aspects of the parallel importation of trade marked goods. However, given the scope and timing of this review, it seems unlikely that it will involve the comprehensive examination of the parallel importation of trade marked goods that the IPC considers needs to be undertaken. Further, it is noted by the IPC that no detailed analysis or empirical study will take place by the Panel during the Competition Policy Review itself.

4. The IPC wishes to bring to the Panel's attention the concerns that its members have had for some time regarding the provisions in the Trade Marks Act 1995 (the Act) relating to parallel importation. These concerns are due in part to the lack of clarity surrounding these provisions in the light of several recent decisions of the courts.

5. The regulation of parallel importation of trade marked goods has long been a contentious issue involving conflicting principles and policies which need careful balancing and periodic
review to ensure that the regulation continues to serve the public interest. For this reason and the reasons set out below, the IPC considers that the situation has been reached where a comprehensive examination of the parallel importation of trade marked goods should be undertaken to determine the costs and benefits of permitting (or not permitting) such parallel imports into Australia. It is important that this examination include detailed empirical investigations which have not been carried out in the past, even when the current laws regarding parallel importation were introduced in 1995. Such an examination will enable the Government to review and reassess its policy position and then take action to make the law clear, certain and consistent with that policy.

Problems with the current statutory provisions

5 The IPC notes that in the past government policy in the area of registered trade marks has supported parallel importing. This is seen in section 123 of the Trade Marks Act 1995 (section 123) which provides that a person who uses a registered trade mark in relation to goods that are similar to goods in respect of which the trade mark is registered does not infringe the trade mark if the trade mark has been applied to, or in relation to, the goods by or with the consent of the registered owner of the trade mark. (Section 123(2) provides similarly in relation to services.) While some doubt surrounds the position, recent Full Federal Court decisions have held that a parallel importer of goods bearing a registered trade mark will infringe the registration unless the parallel importer is excused by section 123.

6 However, in light of several significant decisions by the courts, it has become very difficult to advise clients on what is, or is not, a legitimate parallel import. For example, recent decisions of the Federal Court suggest that the defence provided by section 123 may not apply where:

(a) the trade mark is applied to goods manufactured overseas pursuant to a licence from the Australian trade mark owner, but sold or supplied outside the scope of the licence;

(b) the trade mark is applied by a company within the same corporate group as the Australian trade mark owner, but the related company’s licence excludes sales to Australia;

(c) the Australian registered trade mark has been assigned to an independent Australian distributor or licensee or to a company within the same corporate group as the previous Australian trade mark owner;

(d) the Australian registered trade mark has been assigned to an Australian distributor/licensee, although the trade mark owner in the country of origin holds an assignment back which is not dated or registered, or where there is an obligation to assign the trade mark to the overseas owner on demand.

7 In addition, section 123 operates as a defence so the onus lies on the importer or retailer to prove all the requirements of the defence have been satisfied. This is typically very difficult to satisfy. The members of the IPC are aware that some Australian retailers and importers

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3 The IPC notes that this is consistent with the recommendations made by The Productivity Commission in its Trade and Assistance Review 2011-2012 at 94-96
are therefore avoiding the risks associated with parallel imports for fear of engaging in criminal conduct and being labelled a counterfeiter.

8  Trade mark owners also frequently claim that an Australian import or retailer which purchases parallel imports from an overseas distributor commits the tort of inducing a breach of the contract between the trade mark owner and the distributor.

9  The problems associated with the points (c) and (d) above have been known for some time. Indeed, in its report on the Review of intellectual property legislation under the Competition Principles Agreement, September 2000, the Intellectual Property and Competition Review Committee recommended that “the Trade Marks Act be amended to ensure that the assignment provisions are not used to circumvent the intent to allow the parallel importation of legitimately trade marked goods”, a recommendation that was accepted by the Government. While several initiatives to implement this recommendation were commenced, none were completed.

Other problems

10  Trade mark owners have expressed concern in relation to the following circumstances where their goods have been parallel imported into Australia, concerns the IPC consider should be taken into account in any examination or review of the parallel importation of trade marked goods.

   (a) Where the parallel imported goods are new but the condition of the goods has been changed or impaired without the consent of the Australian trade mark owner.

   (b) Where the parallel imported goods are materially different from goods that are also being supplied in Australia by or with the consent of the Australian trade mark owner.

   (c) When those responsible for parallel importing the goods do not provide spare parts or warranties comparable to those provided in relation to the goods supplied in Australia by or with the consent of the Australian trade mark owner.

   (d) Where those responsible for parallel importing the goods tamper with the packaging of the goods. Concern is particularly expressed where lot number codes are removed making it difficult to establish the age of the products or identify the products in the event of a safety recall.

11  The circumstances identified in points (a), (b) and (c) immediately above can result in blame being attributed to the Australian trade mark owner which in turn results in damage to the owner’s goodwill and a diminution in the value of the registered trade mark.

12  Parallel imported goods can also be used to prevent the detection of counterfeit goods entering the country. Some trade mark owners have had experience with counterfeit goods being packaged in containers surrounded by parallel imported goods.

13  If the recommendations of the Working Party to Review the Trade Marks Legislation (Working Party) had been implemented, section 123 would not have provided a defence to the parallel importation in the circumstances identified in points (a) and (b) immediately above. In particular, in recommendation 22D(4) in its report Recommended Changes to the Australian Trade Marks Legislation,1992 the Working Party recommended that :
“A registered trade mark is not infringed by
(4) the use of the trade mark on goods imported into Australia provided that:
(i) the mark has been applied to the goods by or with the consent of the trade mark
proprietor;
(ii) in the case of new goods the condition of the goods has not been changed or
impaired; and
(iii) where the goods are also being supplied by or with the consent of the
registered proprietor, the goods the subject of the importation are not materially
different from the first-mentioned goods;”

Conclusion

14 In conclusion, the IPC reiterates its view that a comprehensive examination of the parallel
importation of trade marked goods including empirical investigations should be undertaken
to enable the Government to review and reassess its policy position and then to take action
to make the law clear, certain and consistent with that policy.

15 If you have any questions regarding this submission or would like further information or
background to that raised in this submission, please contact the Committee Chair, Richard
Hamer, by phone on 03-9613 8853 or via email: Richard.Hamer@allens.com.au.

Yours sincerely,

[Signature]

John Keeves
Chairman, Business Law Section
Ms Sharon Thomas  
Secretariat  
Advisory Council on Intellectual Property  
P O Box 200  
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Via email: mail.acip@ipaustralia.gov.au

23 January 2015

Dear Ms Thomas,

**ACIP Review of the Designs System Options Paper**

I have pleasure in enclosing a submission in response to the ACIP’s ‘Review of the Designs System Options Paper, December 2014.

The submission has been prepared by the Intellectual Property Committee of the Business Law Section of the Law Council of Australia.

If you wish to discuss any aspect of this submission, in the first instance please contact the Committee Chair, Sue Gilchrist, on 02-92225 5221 or via email: sue.gilchrist@hsf.com.

Yours sincerely,

John Keeves, Chairman  
**Business Law Section**

Enc.
1 Introduction


The Options Paper seeks submissions on the three options ACIP puts forward for further action in relation to changing Australia’s designs regime. The IPC does not support one option to the exclusion of the other two. Rather the IPC supports aspects of all three options as set out below.

2 Option 1 – Fix details in the 2003 Act

2.1 Appendix A

3 The IPC supports correcting the specific problems listed in ‘Appendix A’ of the Options Paper in the manner suggested in Appendix A, subject to the following paragraphs.

4 The IPC refers to the comment in relation to the third listed problem that lack of entitlement is not a ground for revocation of a patent since the Intellectual Property Laws Amendment (Raising the Bar) Act 2012 (Cth). As noted in the ‘Potential fix’ column in Appendix A, subsection 138(4) of the Patents Act 1990 (Cth) preserves the revocation power if the court is satisfied it is just and equitable to order revocation. The IPC supports the power to revoke a registered design on the basis of entitlement being similarly discretionary. The IPC also supports the recommendation to focus on entitlement at the time of the proceedings to revoke the registered design provided that the current registered owner can establish a chain of title back to the entitled person(s).

5 The IPC also refers to the comment in relation to the first listed problem in Appendix A to the effect that dotted lines are not allowed in Australia. This appears inconsistent with the following part of D04.5.1 of the Designs Examiners’ Manual of Practice and Procedure which provides:

‘Dashed v solid lines

A common situation involves some elements of the representations being shown in solid lines, while other elements are in broken (dashed or dotted) lines. Broken lines are frequently used to indicate things such as:
- elements of the product other than those bearing the visual features of the design;
- boundaries (e.g. of a pattern applied to part of a surface);
- stitching;
- perforations;
- hidden elements (typically in perspective views);
- features that establish an environmental context;
- features outside the scope of the design (such as the store dummy in Review 2 v Redberry Enterprises referred to above).

Indeed, rarely a drafter might use dashed lines to indicate the visual features of the design, and solid lines to indicate generic features of the design.

In all instances, the examiner needs to interpret the representations in the context of the design as a whole, applying a presumption that differences in the manner of representation of features is for a purpose, and make this assessment in the context of the standard of an informed user.‘

6 It is important that the position in relation to dotted lines be clarified. However, the IPC sees no reason why the use of clearly visible dotted lines executed in durable and black colour should not be allowed as a means to differentiate between parts of a design.

7 In addition to the matters listed under Option One in the Options Paper, in the IPC’s Issues Paper Submission the IPC pointed out that while section 10 of the 2003 Act grants the registered designs owner the exclusive right to authorise others to do any of the other exclusive rights granted by the section, section 71 omits this authorisation right in the list of acts that constitute an infringement. The IPC considers that section 71 should be amended to include the act of authorisation.

8 The IPC also reiterates its view, expressed in the IPC’s Issues Paper Submission, that subsection 75(2) of the Act needs to be amended. This subsection in effect provides for an ‘innocent infringer’s defence’. Although describing the situation as a curiosity if not an anomaly, in Review Australia Pty Ltd v Innovative Lifestyle Investments Pty Ltd [2008] FCA 74, Jessup J held that due to its drafting the subsection can only be relied upon for infringements that take place once the registered design is in fact registered. Thus, it could not be relied on by a defendant in relation to conduct engaged in between the filing date of the application and the date the design was actually registered, even though the defendant could not ascertain from the Register that registration of the design had even been applied for.

2.2 Other Option 1 changes

9 The IPC supports the following further Option 1 changes recommended by ACIP, subject to the notes below:
- Changing the terminology for a registered but uncertified design. As the design is a registered design, the IPC would prefer the new name to be ‘uncertified design’ rather than ‘design application’.
• Removing the option of the publication regime from the design process.

• The tentative view that renewal should only be possible for certified designs. Regardless of whether the term for protection is increased or not, the IPC considers that this tentative view should be implemented. The IPC agrees that requiring certification as a condition of renewal goes some way in addressing the disadvantages of not substantively examining applications before registration.

• The ‘statement of newness and distinctiveness’ (SoND) should not be made compulsory.

• Allowing amendment of the SoND only up to the point of registration.

**The copyright/design overlap**

10 The IPC also considers the anomalies that have arisen in relation to the copyright/design overlap must be addressed. The level of confusion in this area identified by ACIP compels reform. However, as illustrated below in this submission, the IPC considers the copyright/design overlap and several other issues raised in the Options Paper are inter-related and that this inter-relationship is relevant to formulating solutions to the problems these issues present.

11 Two matters in particular need clarification following *Polo/Lauren Co LP v Ziliani Holdings Pty Ltd* [2008] FCAFC 195 – clarification of the status of woven products such as tapestries and carpets and clarification as to when a three-dimensional appearance is sufficient to warrant treatment as shape or configuration rather than two-dimensional pattern or ornament.

12 The IPC notes that the problems identified in the previous paragraph would disappear if there was a return to the original definition of corresponding design – that is, as meaning, in relation to an artistic work, a design that when applied to an article results in a reproduction of the artistic work regardless of whether design consists of two-dimensional features of pattern or ornament or three-dimensional features of shape or configuration. The question is whether the benefits in preserving full copyright protection for artistic works industrialised as two-dimensional decorative designs are sufficient to tolerate the uncertainties so far encountered in attempting to define the boundaries of such designs.

13 Clearly the more exceptions to the operation of section 77 of the *Copyright Act 1968* (Cth) (*Copyright Act*), the more scope there is for uncertainty and legal confusion. In this regard the IPC queries whether ‘works of artistic craftsmanship’ should retain copyright protection when they are mass produced by machine or a similar industrial process in contrast to when the copies are individually crafted. Limiting the exclusion from the operation of section 77 of the Copyright Act for works of artistic craftsmanship to situations where the copies made and offered for sale are themselves works of artistic craftsmanship is consistent with the
original policy rationale for granting special protection to such artistic works – the small scale of the reproduction and the inability to afford participation in the registration system which artist-craftspeople suffer. The IPC accepts that there may be occasions when reproductions of works of artistic craftsmanship cannot themselves qualify as works of artistic craftsmanship.

In the IPC’s Issues Paper Submission, the IPC expressed concerns relating to section 18 of the 2003 Act. The IPC reiterates these concerns which in summary are as follows:

(a) there appears to be no reason why a corresponding design for the purposes of the 2003 Act should not continue to be defined as a design that reproduces an artistic work regardless of whether the design consists of two-dimensional features of pattern or ornament or three-dimensional features of shape or configuration; and

(b) the rules set out in section 18 of the 2003 Act and section 77 of the Copyright Act should be consistent with each other and adopt the same structure and language.

Further detail is contained in the IPC’s Issues Paper Submission.

The eligibility and infringements tests

The IPC notes that on the basis of the evidence before it ACIP considered that the eligibility threshold should not be changed at this time. The IPC is strongly of the view that section 19 of the 2003 Act requires urgent amendment to remedy the problems the IPC identified in its submission on ACIP’s Designs Issues Paper. For ready reference this part of the IPC’s submission is reproduced below.

‘Question 22: Do you have any other comments?

(a) Uncertainty in relation to Enforcement: the test for infringement and validity

The IPC has concerns regarding the current level of uncertainty that exists in relation to the Designs Act in an enforcement context. This issue does not appear to be addressed in the Issues Paper, although there is a reference on page 11 to concerns regarding potentially high costs of enforcement in relation to innovation patents, and that similar concerns may exist in relation to designs. It is the IPC’s position that the level of uncertainty that currently exists in relation to the provisions of the Designs Act which relate to validity and infringement are resulting in increased costs of enforcement and may be dissuading design owners from commencing enforcement actions. If design owners are not prepared to enforce registered designs, this reduces the value of the registration, and the designs system as a whole.

Infringement – sections 19 and 71

In particular, under the Designs Act, a design is infringed if a product embodies a design that is identical to, or substantially similar in overall
impression to, the registered design (section 71(1)). Whether an allegedly infringing design is substantially similar in overall impression to the registered design is to be assessed in accordance with section 19 (section 71(3)). Section 19 lists 6 factors which must be applied as part of the assessment. However, the Designs Act provides no guidance as to how, as a practical matter, a person or Court is to take into account and weigh and balance each of these factors, while continuing to have regard to the overall impression. Further, there is no clear guidance as to the meaning of some of the enumerated factors, such as “the state of development of the prior art base for the design” (s19(2)(a)), and “the freedom of the creator of the design to innovate” (s19(2)(d)). As such, there is a significant lack of clarity in relation to the meaning and application of section 19. This uncertainty has an effect on the efficient conduct and resolution of proceedings, which in turn results in increased costs of proceedings.

Further, section 19(4) provides that in applying the factors listed in section 19(1)-(3), the person or court must apply “the standard of the informed user”, being “a person who is familiar with the product, or similar products, to which the design relates” (section 19(4)). However, parties are continuing to experience difficulties in applying this section and identifying who may be the appropriate ‘informed user’, including what level and nature of familiarity with the product or similar products is required, and whether this still requires evidence from a professional design expert. This is made more difficult as a result of differing approaches by the Federal Court (compare, for example, Kenny J in Review 2 Pty Ltd v Redberry Enterprises Pty Ltd (2008) 79 IPR 214 and Yates J in Multisteps Pty Ltd v Source and Sell Pty Ltd [2013] FCA 743). As a result of this uncertainty as to what section 19(4) requires, the IPC is aware of examples where parties have retained multiple experts, with different backgrounds and areas of expertise, including professional designers to assist the Court to interpret the designs using design concepts and terminology. This results in increased costs for the parties, not just in terms of the costs involved in retaining experts and preparing evidence from multiple experts, but also because it is likely to result in an increase in the length and complexity of a hearing. Lengthy hearings also have an impact more broadly in terms of available Court resources.

Validity – sections 16 and 19

For similar reasons discussed above in relation to infringement, the IPC recommends that ACIP also consider the lack of clarity that exists in relation to section 16 of the Designs Act. This lack of clarity arises as a result of two aspects. First, section 16(2) requires that, to assess whether a design is distinctive, section 19 must be applied. The difficulties in relation to section 19 in the context of validity are the same as those discussed above in the context of infringement. Secondly, uncertainty also arises in relation to the reference to ‘prior art base for the design’ in
sections 16(1) and 16(2), especially when section 19 then requires consideration of ‘the state of development of the prior art base for the design’.

The Options Paper refers to criticism ACIP received that section 19 provides little guidance on how its various factors should be interpreted and went on to state that no suggestions were offered as to how the legislation could offer more guidance and still retain sufficient flexibility to address individual cases. Given the short time frame for submissions on the Options Paper and the Christmas holiday period, it is not possible for the IPC to provide any such suggestions, other than to suggest that several of the key expressions in section 19, such as ‘state of development of the prior art base’, ‘freedom of the creator of the design to innovate’ and ‘informed user’ should be defined or clarified in the 2003 Act. However, if further time was made available, the IPC would be pleased to consider making a further submission on how the concerns it has expressed may be accommodated.

**Multiple design applications**

The IPC has reservations about reducing the fees for each additional design included in a multiple design application. The recommendation to do so is largely intended to benefit those industries which produce a large number of designs – typically exemplified by the fashion industry. There are clear disadvantages in the recommendation. The recommendation assumes that each of the designs in the multiple application are new and distinctive (an assumption that will only be tested if the designs are subsequently examined), and gives preferential treatment to a class of designers. ACIP does, however, comment that its recommendation may involve stricter eligibility requirements for multiple applications.

Implementing different eligibility requirements for multiple applications will add another layer of complexity to the registration system. The IPC considers it more likely that an unregistered design right regime will better meet the needs of those industries which produce a large number of designs, many of which will have a short commercial life.

Option 2 – Fix details in the 2003 Act and adopt changes to improve the designs system and to bring Australian law into line with international standards

### 3.1 Border protection measures

The IPC agrees that measures should be introduced to allow for the seizure by Customs of imported goods bearing infringing designs. The IPC, however, does not agree that this seizure power should be limited to goods bearing designs identical to registered designs. It will not take much time before importers make insignificant changes to the design as registered solely to avoid seizure. This recommendation would also
introduce a new measure for comparing designs and allegedly infringing goods in the context of customs seizures which is different to the infringement test in the 2003 Act.

21 The IPC appreciates that it may often be difficult for Customs to determine whether designs similar but not identical to the registered design nevertheless infringe the registered design. Concerns in this regard may be of limited practical consequence given that the objector will be required to promptly bring the alleged infringer before the Court or the seized goods will be released to the importer. In addition, the IPC notes that Customs must already make similar evaluative judgements when applying the seizure provisions under the Trade Marks Act 1995 (Cth) and the Copyright Act.

3.2 Term of protection

22 Regardless of whether or when Australia joins the Hague Agreement, the IPC considers that the maximum term of protection for registered designs should be 15 years with renewals at 5 and 10 years. As is indicated above, the IPC agrees with the recommendation to require certification of the design before the first renewal. Furthermore, the IPC believes that the renewal fee at the 10 year stage should be increased with a view to providing an incentive to design owners to renew only those registrations having sufficient economic value.

3.3 Grace period and Deferred publication

23 In the IPC’s Issues Paper Submission, the IPC did not support the introduction of a grace period or the introduction of deferred publication. Both measures undermine the reliability of the Register and clearly favour the design owner over third parties who wish to ascertain whether the marketing of a proposed product will infringe the rights of others including those third parties who have independently created their designs. The IPC believes that a grace period may be of more benefit where there is also an unregistered design right in existence. The IPC does not believe Australia should introduce a grace period or any form of deferred publication at this stage when there are no treaty obligations to do so.

24 If or when a grace period is introduced, the IPC agrees that there must be a prior user defence. If or when some form of deferred publication is introduced, the IPC believes that design owners should be required to publish their design registration within a reasonable period of products embodying the design being launched. In addition and not in the alternative, as discussed above the IPC also considers that the section 75(2) ‘defence’ should apply to protect defendants in relation to conduct engaged in before the date documents relating to the design are published whether such defendants are copiers or independent creators.

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2 Hague Agreement Concerning the International Deposit of Industrial Designs. As noted on page 12, fn 12 of the Options Paper, “There have been a number of separate ‘acts’ within the Hague ‘system’, the key acts are the Hague Act of November 28, 1960 and the Geneva Act of July 2, 1999. Countries may accede to either of these Acts.”
3.4 Registration of partial designs

The IPC agrees with ACIP that allowing the registration of designs for parts of products involves a fundamental change to the concept of a registered design. Such registrations would effectively render the SoND redundant. Such a change may be warranted if Australian designers are being prejudiced in seeking priority under the *Paris Convention for the Protection of Industrial Property* (1883) by the inability to register designs in Australia for parts of products.

The IPC considers it important that designs are only registered for products as defined by the relevant legislation and that at the time of registration any SoNDs satisfy the definition in subparagraph 19(2)(b) of a statement identifying particular visual features as new and distinctive. The IPC considers that the scrutiny of designs applications undertaken by the Designs Office prior to registering a design should require compliance with these matters.

3.5 Virtual designs

The IPC does not consider special provisions should be introduced into the designs legislation for items such as screen icons and graphical user interfaces. The Designs Office is currently dealing with such designs under the 2003 Act. Further, to the extent they are not protectable under the 2003 Act, they may qualify for and retain copyright protection. Additionally, many items of this nature may be registrable as trade marks, but they would need to be used as trade marks in order to remain validly registered.

4 Option 3 – Wholesale revision of the role of the designs system in Australia’s IP Law

4.1 3D printing

At this stage, the IPC does not consider any special provisions should be introduced to deal with 3D printing.

4.2 Unregistered Design Rights (UDRs)

The IPC considers that a review should be undertaken now to determine whether Australia should introduce UDR protection and, if so, what kind of UDR protection.

The IPC considers any UDR protection should be in addition to, and not a substitute for, registered designs protection. The registered designs regime is clearly a suitable means for protecting a large number of designs. ACIP’s review, however, suggests that the registered designs regime may not be a suitable means for protecting all designs worthy of some protection. ACIP states that feedback it received suggested that the current registration system is expensive for what it offers. This no doubt
means that the current registration system is unlikely to be attractive to many small and medium sized firms. It appears to be generally accepted that the current registration system does not meet the needs of those industries which produce a large number of designs, many of which will have a short commercial life. ACIP reports that under the 2003 Act, use by Australian companies is largely static and use by Australian individuals has undergone a steep decline (but that there is a strong rise in use by overseas companies). ACIP reports that two thirds of respondents to its Designs Review Survey, respondents who are users of the IP system, indicated some level of confusion over whether their designs were covered by copyright or not. Indeed, ACIP also reported feedback suggesting that many Australian designers and design firms are not presently well-educated in intellectual property law.

All of the above suggest there is a need to provide Australian designers with an alternative to a registration based system. Amending the copyright/design overlap provisions and granting a shorter term of copyright protection to industrially applied artistic works is unattractive because the copyright originality innovation threshold is so low. The nature of an UDR allows for great flexibility in fashioning the scope of protection including the innovation threshold, the duration of protection and the manner of infringement. In the IPC’s Issues Paper Submission, the IPC indicated a firm view that any UDR introduced in Australia should protect only against copying. The IPC continues to hold this view.

The IPC would be pleased to discuss any aspect of this submission. Please contact the Chair of the IPC, Sue Gilchrist, on (02) 9225 5221 or via email at Sue.Gilchrist@hsf.com if you would like to do so.
Dear Sir / Madam

Submission in Response to the Competition Policy Review Final Report

The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (IPC) welcomes the opportunity to make a submission in response to the Competition Policy Review Final Report (Final Report). This submission addresses the Final Report's recommendation that an overarching review of intellectual property (IP) be undertaken by the Productivity Commission¹ and the recommendation to repeal section 51(3) of the Competition and Consumer Act 2010 (Cth) (CCA)² (collectively, the IP Recommendations).

The IP Recommendations in the Final Report effectively mirror the corresponding draft IP Recommendations in the Competition Policy Review Draft Report (Draft Report). The IPC previously made a detailed submission expressing a number of concerns about the draft IP Recommendations. A copy of that submission is attached.

The IPC considers that the concerns it expressed in relation to the IP Recommendations in the Draft Report have not been adequately addressed in the Final Report. As such, the IPC reiterates its concerns in relation to the IP Recommendations.

In particular, the IPC submits that it is premature to recommend the repeal of section 51(3) without first undertaking a comprehensive overarching review of the interaction of the IP law regime with competition policy. In this respect, the IPC notes the following.

1. The Draft Report, while correctly identifying that an appropriate balance between competition and IP must be struck, did not address the underlying policy considerations and competing interests in any detail sufficient to inform the proper striking of that balance. The IPC considers that the Final Report also lacks sufficient detail in that regard.

¹ Final Report, Recommendation 6, page 41.
² Final Report, Recommendation 7, page 42.
2 A broader review which focuses on the underlying issues and overarching policy objectives of both the IP and the competition law regimes, and the relationship between the two, would be a more appropriate forum for detailed discussion about whether a repeal or amendment of section 51(3) is necessary or desired. The recommendation in the Final Report that such a review be undertaken by the Productivity Commission is appropriate, but will only be fully informed and comprehensive if such a review is undertaken by people with expertise in the areas of competition law, IP law and economics.

3 In light of the fact that such a review has not yet been undertaken, Recommendation 7 of the Final Report, which proposes that section 51(3) of the CCA be repealed, should not be adopted.

If you have any questions regarding this submission or would like further information or background to that raised in this submission, please contact the Committee Chair, Sue Gilchrist, by phone on (02) 9225 5221, or by email, Sue.Gilchrist@hsf.com.

Yours sincerely,

[Signature]

John Keeves, Chairman
Business Law Section
Dear Sir or Madam,

Submission in Response to the Competition Policy Review Draft Report

The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (IPC) welcomes the opportunity to make a submission in response to the Competition Policy Review Draft Report (Draft Report). This submission addresses the Draft Report's recommendation that an overarching review of intellectual property (IP) be undertaken by an independent body¹ and the recommendation to repeal section 51(3) of the Competition and Consumer Act 2010 (Cth) (CCA).²

Key Summary

1. It is premature to recommend the repeal of section 51(3) without first undertaking a comprehensive overarching review of the interaction of the intellectual property law regime with competition policy.

2. The Draft Report, while correctly identifying that an appropriate balance between competition and IP must be struck, does not address the underlying policy considerations and competing interests in any detail sufficient to inform the proper striking of that balance.

3. A broader review which focuses on the underlying issues and overarching policy objectives of both the intellectual property and the competition law regimes, and the relationship between the two, would be a more appropriate forum for detailed discussion about whether a repeal or amendment of section 51(3) is necessary or desired. The Draft Report's recommendation that such a review be undertaken by an independent body is appropriate, but will only be fully informed and comprehensive if such a review is undertaken by a body consisting of people with expertise in the areas of competition law, intellectual property law and economics.

² Ibid.
In light of the fact that such a review has not yet been undertaken, Recommendation 8 of the Draft Report, which proposes that section 51(3) of the CCA be repealed, should not be adopted.

The recommendation to repeal section 51(3) without first undertaking a full review is problematic for the following reasons:

• The Draft Report fails to adequately recognise the importance of IP rights as inherently distinct from other forms of property rights, and that they should be treated accordingly. Protection of IP rights is essential for stimulating a pro-competitive and innovative market. Subjecting IP rights to a blanket competition test would serve to decrease incentives to innovate, leading to detrimental consequences for competition, economic investment in Australia and ultimately for Australian consumers.

• There is a lack of any empirical evidence supporting the Draft Report’s comments about the anti-competitive effect of certain IP licensing or assignment arrangements, and the situations envisaged by the Draft Report of anti-competitive use of IP rights would not in any event attract the protection of section 51(3). They are largely alleged contraventions which relate to section 46 and are not within the scope of section 51(3).

• If section 51(3) were to be repealed, Australia would fall out of step with comparable jurisdictions such as the US, EU, Canada and New Zealand. These jurisdictions all acknowledge and accommodate for the unique nature of IP rights in their respective competition law regimes. For Australia to remove all safe harbours for IP rights would be an anomaly, having regard to the protections afforded in other countries with similar competition laws.

• Repeal of section 51(3) would result in large administrative and transactional costs, both for the regulator and for IP rights holders. In particular the proposal to use notification and authorisation procedures creates the potential for red tape and delay of common IP transactions such as the grant of exclusive licences.

**IP rights are inherently distinct from other forms of property rights**

An appropriate balance must be struck between IP rights and competition. However, the IPC considers that the appropriate balance would not be achieved, or improved, by the removal of safe harbour provisions for IP rights and/or subjecting licensing of IP rights to a competition test.

As an initial matter, there is no empirical evidence cited in the Draft Report to suggest that IP licensing or assignment arrangements of the kind exempted by section 51(3) are hampering competition in Australia. For example, there is no empirical evidence provided in the Draft Report to indicate that ‘accrual of patent
portfolios' and 'cumulative innovation' together with their licensing in a manner exempted by section 51(3) are substantially realised problems in Australia.³

8 The main characteristic of IP rights is not physical possession. Rather, they are statutory rights intended to protect and promote innovation where market failure may preclude an innovator from recovering the benefits of innovation (i.e., the costs of undertaking the development and risk of that investment). IP rights act as an incentive to rights owners to invest in new innovations by granting the owner the ability to exclude others from using its rights for a period of time. To propose that such rights should only be exercised in the face of a fully competitive market is fundamentally misconceived and ignores the purpose of granting the rights in the first place.

9 In the economic context, the absence of appropriate protection for IP rights can have serious adverse consequences for the Australian economy. Without adequate protection, organisations will choose not to invest in research and development work in Australia or not to introduce or market their products in Australia. This would result in a limitation in the availability of products to the detriment of consumers.

The policy and scope of section 51(3) does not allow for anti-competitive behaviour

10 Section 51(3), as presently drafted, seeks to maintain a balance between encouraging and rewarding innovative, creative endeavour with regulating uses of IP rights more generally under competition laws. Section 51(3) seeks to draw that balance at the point where the restriction imposed by the term or condition extends beyond the scope of the exclusive right conferred by the relevant IP right or, as explained by Mason J in Transfield v Arlo,⁴ seeks to gain an advantage collateral to the rights conferred by the intellectual property. Subject to the further points made below, the IPC submits that is the appropriate balance to be drawn and, in an Australian context, is consistent with the approaches taken overseas in different legislative and policy settings.

11 The Ergas Committee’s review of section 51(3) of the Trade Practices Act 1974 (Cth) recognised that “the IP legislation confers upon the intellectual property rights holder a series of exclusive privileges designed to promote innovation. Given that these are conferred by legislation they should be able to be effectively exercised even when this involves (as it generally must) the exclusion of others”.⁵

12 The policy rationale behind section 51(3) is economically beneficial, and itself pro-competitive. An intellectual property owner can only obtain a return on their investment by commercialising the innovation themselves, or by permitting a third party to do so on their behalf (for example, by entering into an agreement to

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³ Draft Report, page 82.
⁴ (1980) 144 CLR 83 at 103.
licence or assign the property rights to the third party, usually or often on an exclusive basis, in return for a fee or royalty). The latter situation commonly occurs where the innovator lacks the means or desire to exploit their innovation. In such a situation, agreeing to assign or licence their rights simply allows a third party to do what the innovator itself could, but is unable to, do. This situation, which section 51(3) is clearly intended to cover, is readily recognised as being pro-competitive.

13 In fact, it is inconsistent to use IP laws to stimulate innovation and then subject any dealing in commercialising that innovation to the competition test. Doing so will in all likelihood reduce post innovation returns and at worst, result in market failure. The imposition of a substantial lessening of competition test will impose an additional level of complexity into IP contracting which does not currently exist. As many IP licences are entered into at the early stages of research and development in an endeavour to obtain sufficient funding to continue that research and development, or to test for commercialisation of a product, the result may well be that IP rights holders will reduce licensing activities out of fear of contravening the CCA, thus depriving industry of access to new products and processes.

14 For example, if section 51(3) were repealed, exclusive IP licensing agreements would be subject to the prohibition against exclusive dealings in s 47 of the CCA. Not only is it incongruous in principle that IP rights holders would not be allowed to exercise their exclusive rights conferred by statute, but this would also have the effect of discouraging licensing by the rights holder. This in turn can have the downstream effect of reducing competition in the market due to the refusal to licence.

15 The Draft Report has failed to recognise the caveat in section 51(3) that IP licences and assignments will not attract the protection of section 51(3) if they fall within the scope of ss 46, 46A or 48 of the CCA. For example, the Draft Report's suggestion that IP rights "can be used to facilitate monopolistic or anticompetitive behaviour…for example, manifest in owners of IP rights extracting excessive royalties from IP licences or placing unnecessary restrictions on knowledge dissemination" is irrelevant to the discussion of the appropriate scope of section 51(3), as such anti-competitive behaviour would fall within s 46 and therefore not attract the operation of the exemption. Similarly, the statement suggesting that conflicts occur between IP and competition policy "where IP owners are in a position to exert substantial market power to engage in anti-competitive conduct to seek to extend the scope of the right beyond that intended by the IP statute" is not supported by section 51(3) and would fall within the ambit of s 46 of the CCA.

16 Further, the Draft Report's proposal to subject IP licences and assignments to a "substantially lessening of competition" purpose or effect test is unhelpful as the Draft Report has made no attempt to clarify what is meant by a 'substantial

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7 *Draft Report*, page 82.
lessening’ of competition. This is an infamous black hole in Australian competition law, largely because the courts have failed to give any adequate guidance as to what is meant by ‘substantial’. For example, the High Court of Australia has said that a ‘substantial’ lessening of competition is one that is ‘meaningful or relevant to the competitive process’. From a practical standpoint in business, that observation is neither meaningful nor useful. This problem would be compounded if, as proposed in the Draft Report, the test were to become the key test of liability for IP licences and assignments.

**IP protection in other jurisdictions: The US, EU, Canadian and NZ experience**

17 The Draft Report did not give adequate detailed consideration to the relationship between IP and competition in other jurisdictions. A repeal of section 51(3) would be inconsistent and out of step with the competition law regimes in other major jurisdictions, which all have safe harbour provisions to exclude the exercise of IP rights from competition law. This section draws attention to some examples of the safe harbour regimes operating in the US, EU, Canadian and New Zealand jurisdictions.

**United States**

18 The Draft Report stated that "in other jurisdictions, such as the US, IP rights are subject to the same competition laws as all other property rights". This appears to reflect a fundamental misunderstanding of the operation of US competition law and the lessons that should be drawn for Australian law and policy.

19 First, the US courts employ the use of the "rule of reason", a legal doctrine applied to the interpretation of US antitrust law so as to safeguard against the overly strict interpretation of US antitrust legislation. The rule of reason, which has a long history of judicial interpretation and has particular application in the context of IP, requires a Court to consider the totality of the circumstances in relation to a practice that may be *prima facie* anti-competitive and in violation of the antitrust legislation. Thus, there is protection to be had in the fact that 'in every case where it is claimed that an act or acts are in violation of the statute, the rule of reason, in the light of the principles of law and public policy which the act embodies must be applied'.

20 Under the rule of reason, a restraint on competition 'must be evaluated to determine whether it is significantly anti-competitive in purpose or effect. In making this evaluation, a court generally will be required to analyse the facts peculiar to the business, the history of the restraint and the reasons it was imposed. If, on analysis, the restraint is found to have a legitimate business purpose whose realisation serves to promote competition, the 'anti-competitive evils' of the challenged practice must be carefully balanced against its 'procompetitive virtues'

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8 *Rural Press Ltd v ACCC* (2003) 216 CLR 53 at 71 per Gummow, Hayne and Heydon JJ.
9 Draft Report, page 84.
10 *Standard Oil of New Jersey v US* 221 US 1 at p 67.
to ascertain whether the former outweigh the latter. A restraint will be unreasonable if it has the ‘net effect’ of substantially impeding competition."\(^{11}\)

21 As there is no Australian counterpart, the rule of reason ‘defence’ would be unavailable against the broadly defined categories of prohibition under the CCA.\(^{12}\)

22 Secondly, in the application of the rule of reason, the US courts have consistently recognised that there is no antitrust violation simply to exercise the rights conferred by the IP right. What is required typically is an attempt to extend the power conferred by the rights beyond the scope of what is granted. Accordingly, the US Supreme Court declared:

> “the patent laws are \emph{in pari materia} with the antitrust laws and modify them \emph{pro tanto}".\(^{13}\)

23 As a result, anti-trust enforcement in the courts in the United States is largely predicated on the existence of market power and its misuse under §2 of the Sherman Act (broadly corresponding to s 46 of the CCA) and, even then, confined to a limited sphere. For example, the Federal Circuit Court of Appeals has explained:\(^{14}\)

> “In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. We therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant."

24 Further, the Department of Justice and the Federal Trade Commission have issued guidelines establishing an anti-trust ‘safety zone’ in relation to certain types of intellectual property licensing arrangements.\(^{15}\) In effect, these guidelines provide that the Department of Justice and Federal Trade Commission will not challenge an IP licence provided that it does not include prima facie anti-competitive provisions, such as price fixing, market sharing or other restraints that tend to reduce output or increase prices, and:

> (a) the licensing parties account for less than 20% of any markets significantly affected by the licence; and/or

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\(^{11}\) James McCoy (Yazoo) Smith v Pro Football Inc (1889) Antitrust & Trade Regulation Reports p E1 (DC Circuit 7 Dec 1977).

\(^{12}\) Draft Report, page 84.

\(^{13}\) Simpson v Union Oil Co. 377 US 13, 24 (1964). See also Eastman Kodak Co. v Image Technical Services Inc. 504 US 451 fn 29 (1992); SCM Corp v Xerox Corp 645 F 2d 1195, 1206 (2d Cir 1981); Data General Corp v Grumman Systems Support Corp 36 F 3d 1147 (1st Cir. 1994).

\(^{14}\) In re Independent Service Organisations antitrust litigation 203 F 3d 1322, 1327-8 (2000).

\(^{15}\) US Department of Justice and Federal Trade Commission, \emph{Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition} (April 2007).
(b) there are four or more independent entities not parties to the licence that have the ability and incentive to engage in similar research activities to those undertaken by the parties to the licence.

25 Within the context of the Australian courts’ approach to anti-competitive behaviour under the CCA, therefore, section 51(3) reflects the same policy recognised by the US courts.

*European Union – Block Exemptions*

26 The European Commission has issued two block exemptions which expressly exclude IP rights from the operation of the competition law regime, to the extent that the IP rights do not engage the abuse of dominant market position rules. The first exemption, known as the Specialisation Block Exemption Regulation, provides that agreements where (a) one or more of the participants gives up the manufacture of certain products or the provision of certain services in favour of another participant, or (b) the participants undertake jointly to manufacture certain products or provide certain services, then the assignment or use of IP rights are exempted from the anti-competitive conduct rule provided that the agreement does not contain any "hardcore" restrictions on competition and the parties' combined market share in the relevant market does not exceed 20%.

27 The second exemption is the Technology Transfer Block Exemption Regulation (*TTBER*). The TTBER, first adopted in 2004 and revised in March 2014, exempts certain licensing arrangements of patents, knowhow and software IP rights from the operation of the Article 101(3) of the *Treaty on the Functioning of the European Union*, which prohibits anti-competitive agreements and cartel conduct within the EU. Broadly speaking, the TTBER creates a safe harbour for licensing agreements concluded between companies that have limited market power and that respect certain conditions set out in the TTBER. These agreements are deemed to have no anti-competitive effect, or, if they do, the positive effects outweigh the negative ones. For example, the agreements must not contain severely anti-competitive restraints, such as provisions restricting a party's ability to set its own prices. The TTBER is accompanied by Guidelines which provide further detail on the application of the TTBER.

28 After extensive public consultation on the 2004 version of the TTBER, the European Commission expressly recognised that the revised TTBER ‘continues to reflect that licensing is in most cases pro-competitive’. In fact, rather than electing to repeal the TTBER, the European Commission recognised that more certainty – not less – was required. Thus, the revised TTBER adopts a more prudent approach of de-classifying certain, specific types of agreement clauses with potential anticompetitive effect, so that they are no longer automatically exempt

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from antitrust rules. These clauses include no-challenge clauses, such as those which allow the licensor to terminate a non-exclusive agreement if the licensee challenges the validity of the IP right, or exclusive grant-back clauses which force a licensee to licence to the licensor any improvements it makes to the licensed technology on a purely exclusive basis.\footnote{Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements.}

29 The Review should also note the genesis of the block exemption concept. The European Commission adopted a very wide view of what constituted a restriction on competition under what was then art. 85 of the Treaty of Rome in its interpretation of a test very similar to what is now proposed in the Draft Report. That had a number of negative consequences.\footnote{See Valentine Korah, \textit{Know-how Licensing Agreements and the EEC Competition Rules: Regulation 556/89}, (ESC Publishing Limited, Oxford, 1989), 1 – 4.}

30 First, it meant that most agreements for the exploitation of intellectual property rights were potentially in contravention and so required exemption from the Commission under then art. 85(3).

31 Secondly, the Commission simply never had enough resources to deal with the number of cases for which exemption was potentially required.

32 Thirdly, that in turn led to the practice of the Commission issuing ‘comfort letters’ the legal effect of which, if challenged in court, was highly doubtful.

33 All of these matters created uncertainty and disincentives to the licensing of IP rights which would otherwise generally be considered pro-competitive by promoting the dissemination of technology.

34 The IPC further notes that block exemptions of the kind adopted in the EU are not in themselves a preferred solution and contrary to the Government’s expressed priority for reducing “red tape”. The block exemption substitutes the regulator’s view for what may be acceptable market arrangements for arrangements freely negotiated in the marketplace. The situations and circumstances in which licensing of IP rights may arise, however, are myriad. That calls for flexibility and innovation in arrangements which typically will be most efficiently achieved by negotiation rather than regulatory fiat.

\textit{Canada}

35 In Canada, section 79(5) of the \textit{Competition Act 1985} provides that ‘an act engaged in pursuant only to the exercise of any right or enjoyment of any interest…pertaining to intellectual or industrial property is not an anti-competitive act.’

\textit{New Zealand}

36 Section 45 of the \textit{Commerce Act 1986} (NZ) provides for similar safe harbour provisions to section 51(3). In fact, the New Zealand jurisdiction goes further than
section 51(3) in protecting statutory IP rights under the broader statutory IP regime – that is, the exceptions extend to any right, privilege or entitled conferred under the patents, designs, trade marks, copyright, plant variety or layout designs legislation. The relevant provision states that:

45 Exceptions in relation to intellectual property rights

(1) Nothing in this Part, except sections 36, 36A, 37, and 38, applies—

(a) to the entering into of a contract or arrangement or arriving at an understanding in so far as it contains a provision authorising any act that would otherwise be prohibited by reason of the existence of a statutory intellectual property right; or

(b) to any act done to give effect to a provision of a contract, arrangement, or understanding referred to in paragraph (a).

Summary

37 Clearly, these examples show that IP rights are not treated like other forms of property in other jurisdictions. In light of the above comparative examples, there ought to be corresponding safe harbour in Australian law, such as that provided by section 51(3), to deal with uses of IP rights that are within the scope of the exclusive rights conferred by the relevant IP statute. The current drafting of section 51(3) appears to have achieved its intended purpose without any obvious hardships or undesirable economic effects.

38 If there is to be a framework review of IP laws in Australia as is suggested by Recommendation 7 of the Draft Report, such a review must be conducted before any fully informed proposal to repeal or amend section 51(3) can be made. Such a review would need to examine the circumstances under which various possible kinds of IP licensing restrictions are or are not justified on efficiency grounds. It would also need to examine the extent to which IP restrictions that are justifiable on efficiency grounds are exempt from legal prohibition and whether existing or proposed avenues of exemption are themselves efficient. This would necessarily involve examination of the treatment of IP licensing efficiencies under the rule of reason test in US antitrust law and Article 101(3) of the Treaty on the Functioning of the European Union as compared with their treatment under the amendments to section 51(3) proposed in the Draft Report.

Increasing the regulatory burden and red tape: Administrative, transactional costs and uncertainty in the market

39 The Draft Report's suggestion that IP licensing or assignment arrangements can be granted an exemption from liability under Part IV of the CCA "through the usual notification or authorisation processes" fails to consider the real world practical consequences of such an onerous, inefficient and commercially unrealistic

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20 Section 45(2) Commerce Act 1986 (NZ).
requirement on commercial businesses. A repeal of section 51(3) will undoubtedly create additional and unnecessary administrative costs in the commercialisation of IP across many business contexts. It would be simply economically unfeasible for the ACCC, as well as wholly unfair for businesses, to require businesses to obtain ACCC authorisation for the many IP licences or assignment arrangements which might have an effect on competition.

As commercial transactions involving IP and the management of IP portfolios are a fundamental part of every business, the imposition of this additional obligation would force increased transactional costs as well as adding another layer of ‘red tape’ in ACCC regulation. This is directly contrary to the Government’s policy of reducing regulatory burden and cutting red tape. Increased and unnecessary ACCC administrative regulation resulting in little economic public benefit would be antithetical to cost-effective, efficient competition regulation.

Another ancillary concern with the suggestion that IP licensing or assignment arrangements should be subject to ACCC regulatory approval is the appropriateness of vesting in a regulatory authority a practically absolute power to restrict IP rights that have been granted by statute. Apart from the obvious concern with having competition law regulators reviewing and assessing what may be extremely technical IP agreements, the IPC submits that this would merely add another layer of bureaucracy and red tape by virtue of the training and education needed to ensure the proper conduct of any such process by the ACCC.

The problems with the Draft Report’s approach are illustrated by the Review’s apparent endorsement of the ACCC’s submission that the demise of the Optus TV Now service is in some way contrary to competition policy.21 The rights in question, the transmission of football and rugby matches to internet and mobile subscribers, were the subject of a competitive bidding process. That service was already being provided by a competitor of Optus. The issue was Optus’ ability to provide the service to its subscribers without permission in competition with that other service (that is, in circumstances where Optus did not bid or was a losing bidder). If Optus could circumvent that process, there would be no incentive for its competitors or for it to bid for such rights in the first place. Correspondingly, internet and mobile service providers would have no, or greatly reduced, incentives to compete on what services they offered their customers. In the absence of undue market power, there is no basis for regulatory intervention to permit Optus to circumvent the licensing arrangements. Such a fundamental interference in the free operation of the market is quite unwarranted. The ACCC provides no analysis of the market to support any view that there was any market failure requiring policy intervention. The ACCC has adopted an ex post analysis rather than, as should be the case, viewed the matter ex ante.

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Further, the Draft Report's proposal to grant the ACCC exemption powers based on a block exemption framework cannot work to address the problems which would be created by the repeal of section 51(3), especially in the face of the ACCC's expressed view that IP exceptions to the competition law regime (such as that provided by section 51(3)) are not necessary or desirable. It would give rise to the problems suffered in the EU referred to above. Moreover, there is an inherent problem in repealing section 51(3) on the basis that the ACCC will have the authority to grant block exemptions when the ACCC has stated that it does not consider that exemption of IP transactions is needed.

If the Parliament wishes to regulate this area in a different manner to section 51(3), the proper avenue for evincing its intention to do so is through carefully considered legislative amendment. The amendment should be found in legislation rather than in the exercise of power by a regulatory body. If section 51(3) requires modification (in relation to which no empirical supporting evidence has been brought forward), it is far better to legislate to clarify its scope and application than to grant to a regulatory body a blanket discretionary power to decide (or, more likely in this case, not decide) to issue block exemptions, conditions, guidelines and/or additional procedural processes. Such a section would then be clear on its face and would not require separate reference to the policy position of the regulatory body.

The IPC notes that it has had the benefit of reading the submissions of the Competition and Consumer Committee which also supports the view that section 51(3) should be considered as part of the overarching IP review.

If you have any questions regarding this submission or would like further information or background to that raised in this submission, please contact the Committee Chair, Richard Hamer, by phone on (03) 9613 8853, or by email, Richard.Hamer@allens.com.au.

Yours faithfully,

John Keeves, Chairman
Business Law Section

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23 Draft Report, page 84 citing ACCCC submission 1, page 58.
15 October 2012

Compulsory Licensing of Patents
Productivity Commission
LB2 Collins Street East
Melbourne Vic 8003
Via email: patents@pc.gov.au

Dear Sir or Madam,

The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (IPC) makes the following submission and observations in relation to the Commission’s inquiry into Compulsory Licensing under the Patents Act 1990 (Patents Act). The IPC has not sought to address every question posed in the Issues Paper, but only those matters of particular relevance.

1. **Summary**

**Compulsory Licensing - Product Not Available in Australia**

Where a patented product or process is not available in Australia at all, the current licensing scheme appears to work. While there are relatively few cases which have gone to a final hearing, there are examples of cases noted in this submission where the threat of using the compulsory licensing provisions has led to a negotiated outcome. Part of the reason why there are relatively few cases may be that, ordinarily, the patentee will have an incentive to maximise revenue by selling the product or using the process in Australia.

**Compulsory Licensing - Price Dispute Only**

A compulsory licensing scheme directed to situations where the patented product is readily available in Australia, but there is a dispute between the users and the patentee about price, is at risk of diverging from Australia's treaty obligations. The submission elaborates on the reasons.

**Court Determination of Licence Terms and Conditions**

There is no reason to think that a court cannot determine appropriate royalty rates and conditions for a licence based on expert accounting and commercial evidence. Experience of compulsory licensing decisions in the UK and Canada provide many examples where courts have done so. The patents office in the UK has dealt with determination of compulsory licensing issues, but the IPC's view is that the Australian
Patent Office, as it stands, would not be so well equipped to make such assessments. The assessments are predominantly accounting and commercial assessments and are likely to require determination of the credibility of witnesses, better handled by judges with experience of determining commercial disputes.

Experience of tribunals, such as the copyright tribunal, disclose no particular benefit (nor particular disadvantage) whether in terms of time, cost or otherwise, arising from using a tribunal rather than a court.

The cases are likely to be insufficiently frequent to justify establishing a tribunal. The cases also seem to be insufficiently frequent to enable the development of a specific body of expertise at the Australian Patent Office.

**Technology Neutral**

The IPC's view is that any compulsory licensing provision should be technology neutral as a matter of general principle. Attempts to distinguish between technologies lead to attempts to find exceptions and loopholes. The Australian Government's obligations under international agreements are also relevant - separate treatment of a specific field of technology may be an unjustifiable discrimination against a field of technology.

**Crown Use**

The Crown use provisions are limited to cases of "necessity", which are unlikely to apply when the product is in fact available, albeit at a higher price.

Also, where the dispute is one about price, it cannot be assumed, without reviewing the facts, that it is the case that users are right about the reasonable price. For example, a user might wish to pay $200 for a genetic test for which the patentee wishes to charge $10,000. A consideration of matters such as the cost of the research (including failed research attempts) undertaken to invent and develop the test, the benefit to the users (and/or the public) from the test and the comparative cost of competing methods or technologies might, in appropriate cases, justify the higher figure rather than the lower.

**Collecting Schemes**

Collecting schemes are unlikely to have any useful place in the context of patents. While there are examples of industries (including aspects of computer technology) where widespread non-exclusive licensing, including bulk pricing of patents, is known, the IPC is not aware of any examples of a successful collecting scheme for patents. It is likely that the reason for that is quite fundamental. In particular, the variable nature and value of patent rights would mean that the determination of price to users and the distribution of royalties to patentees would frequently need to be assessed on a case by case basis. The ability to determine a standard general charging mechanism and a fair general method of splitting the revenue among IP owners, which are the key to collecting schemes, are not present. Administrative costs and disputes at both levels are likely to consume any return.

**Compulsory Licensing Statistics**

The IPC has identified some references on compulsory licensing statistics globally which may be of assistance.
General

The IPC is concerned that the Commission considers the full impact of compulsory licensing proposals.

Members of the IPC have observed that, in relation to products such as pharmaceuticals, which require clinical trials and marketing approval, patent protection is a necessary prerequisite to a product being brought onto the market in Australia. Manufacturers would not have the incentive to incur the extremely high costs necessary to develop products, conduct trials and obtain marketing approvals unless they had an opportunity to recover those costs. Recovery of costs is normally achieved through a period of exclusivity as provided for under the *Patents Act*.

Widespread compulsory licensing is likely to result in the reduction of these incentives.

The IPC has prepared a brief commentary on the points above. It would be happy to elaborate further if that would assist.

2. Compulsory Licensing - Product Not Available in Australia

Where a patented product or process is not available in Australia at all, the current licensing scheme appears to work. While there are relatively few cases which have gone to a final hearing, the examples of cases below show the threat of using the compulsory licensing provisions can lead to a negotiated outcome. Part of the reason why there are relatively few cases may be that, ordinarily, the patentee will have an incentive to maximise revenue by selling the product or using the process in Australia.

Examples of experience in practice involving compulsory licences follow. Because licence agreements are usually on confidential terms, it is not possible to list all such agreements, or to provide full details of those listed in a general way below.

1. A licence of bauxite processing technology was negotiated after proceedings were commenced seeking orders for a compulsory licence. A negotiated outcome was achieved before the proceedings progressed beyond pleadings.

2. After discussions stalled in relation to a licence to a patent covering a hepatitis E assay kit, an application and statement of claim pursuant to section 133 (1) of the *Patents Act* were prepared. The pleadings were given to the patentee and a licence was subsequently granted without the need for the proceeding to be issued.

3. In a claim in relation to another assay kit, proceedings were commenced in which the cross-claimant alleged invalidity, or in the alternative, sought a compulsory licence. A negotiated licence was ultimately agreed prior to trial.

It is also relevant that in most cases a patent licence entered into includes access to know-how. Proceeding on the assumption that the words "licence to work the patented invention" in section 133 do not extend to cover know-how, the compulsory licensing provisions do not deal with this potential obstacle to an agreement being reached to exploit a patent. To that extent, the solution to the availability of access to technology
requires a commercial negotiation between a patentee/owner of know-how and a prospective licensee in any event.

3. Compulsory Licensing - Price Dispute Only

Australia is a signatory to several international agreements which, in addition to establishing patentability criteria, impose conditions on Australia’s right to authorise non-voluntary access to patents (including compulsory licences). The most significant international agreements are the Agreement on Trade-Related Aspects of Intellectual Property Rights 1994 (TRIPS) and the Australia-United States Free Trade Agreement (AUSFTA).

Section 136 of the Patents Act directs the Federal Court not to make an order under the compulsory licensing provisions that is inconsistent with Australia’s international treaties. Hence, Australia’s multilateral and bilateral international obligations, such as those under TRIPS and AUSFTA respectively, have limited the types of provisions that the Australian Government has been, and is, able to introduce into Australia’s patent legislation.

3.1 TRIPS

On 1 January 1995 Australia became a World Trade Organisation (WTO) Member State, and thereby a signatory of WTO Agreements including TRIPS. As such, Australia must comply with the minimum standards specified in TRIPS. TRIPS aims to establish a common global standard for the protection of intellectual property rights, including patents. The common global standard of patent protection extends to a common approach to compulsory licensing in domestic intellectual property law.

Article 31 of TRIPS, “Other Use Without Authorization of the Right Holder”, allows, under certain conditions, the use of a patent without the authorisation of the patent holder. TRIPS does not specify the grounds for allowing non-voluntary access, but it does impose conditions on the circumstances in which use may be authorised, namely:

- authorisation shall be considered on its individual merits;
- the proposed user has sought authorisation from the patentee on reasonable commercial terms and conditions and has not been successful within a reasonable period of time (waived during times of national emergency or situations of extreme urgency or in the case of public non-commercial use);
- the authorisation has a limited scope and duration;
- such use is non-exclusive, non-assignable and predominantly for supplying the domestic market;

3 Article 31(a).
4 Article 31(b), however, Members are not obliged to apply the conditions set forth in subparagraph (b) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases: Article 31(k).
5 Article 31(c).
• the authorisation will be terminated if the circumstances which led to the initial authorisation of non-voluntary access cease to exist, with the competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;¹⁰
• the patentee/rights holder receives adequate remuneration, taking into account the economic value of the authorisation;¹¹ and
• decisions related to use and remuneration are subject to judicial review.

The Declaration on the TRIPS Agreement and Public Health (the Doha Declaration) affirmed that TRIPS “does not and should not prevent Members from taking measures to protect public health”¹⁴ and that Members are free to determine the grounds upon which compulsory licences are issued, which can include public health crises.¹⁵

Further agreement was reached on 30 August 2003 (the August 2003 Decision)¹⁶ to allow Members to issue compulsory licences for export to countries that lack manufacturing capacity in circumstances of national emergency or other circumstances of extreme urgency. Paragraph 11 of the 2003 Decision expressly envisages a permanent amendment to TRIPS based on the 2003 Decision. On 6 December 2005 the WTO General Council agreed to the Protocol Amending the TRIPS Agreement¹⁷ to amend TRIPS to incorporate the waiver provision permanently by addition of “Article 31bis” as an Annex to TRIPS. The amendment will take effect when it is ratified by two-thirds of WTO Members,¹⁸ which has failed to occur to date. Canada, India, Norway, Switzerland, the EU, India, China, Korea and the Netherlands have implemented domestic legislation allowing for compulsory licensing of generic drugs in accordance with the 2003 Decision. However, a large number of developed countries that have failed to do so include the United States, Japan and Australia. Australia accepted the Protocol on 12 September 2007,¹⁹ but has not amended the Patents Act to provide an appropriate legal environment.

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⁶ Article 30: Exceptions to Rights Conferred: Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.
⁷ Article 31(d).
⁸ Article 31(e).
⁹ Article 31(f), however, Members are not obliged to apply the conditions set forth in subparagraph (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases: Article 31(k).
¹⁰ Article 31(g).
¹¹ Article 31(h).
¹² Article 31(i).
¹³ Article 31(j).
¹⁷ Amendment to the TRIPS Agreement, WTO Doc WT/L/641 (2005) (General Council).
¹⁸ As of 21 August 2012 only 44/155 Member States have accepted the amendment.
for the export of pharmaceuticals under Protocol conditions. It is arguable that the types of uses intended under the Protocol are permissible under AUSFTA since the permitted uses without authorisation in article 17.9.7(b) of AUSFTA include national emergency, or other circumstances of extreme urgency, subject to certain limitations that would have to be included in the enabling legislation.

3.2 AUSFTA

AUSFTA came into effect on 1 January 2005, and primarily ensures greater access to the United States of America market for Australian products. The implications for Australia from entering this bilateral agreement is that not only does any domestic patent legislation have to comply with the minimum standards set by TRIPS, but it must also comply with the much higher standards agreed to under AUSFTA, "TRIPS-plus provisions", which limit the grounds for use without authorisation to the special categories mentioned in TRIPS.

Hence, while article 31 of TRIPS imposes no limitations on the grounds for compulsory licensing or Crown use, both Australia and the United States of America have agreed to limit the grounds in their legislation to the specific matters identified therein. Use without authorisation in Australia is now limited to the situations provided under section 17.9.7 AUSFTA.

Section 17.9.7 of AUSFTA limits the use of a patented invention without authorisation of the patentee to:

- remedying a practice determined to be anti-competitive — after judicial or administrative process — under either country’s laws relating to prevention of anti-competitive practices;
- cases of public non-commercial use, national emergency, or other circumstances of extreme urgency, provided that:
  - use is limited to use by the government or third persons authorised by the government;
  - the patent owner is provided with reasonable compensation for such use; and
  - the patent owner is not required to provide undisclosed information or technical know-how related to a patented invention.

It is not clear from the text of AUSFTA whether it is intended to restrict the national emergency and other circumstances provision to situations solely within Australia. If this

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22 "Use" in this paragraph refers to use other than that allowed under paragraph 3 and Article 30 of the TRIPS Agreement.
23 Section 17.9.7(a).
24 Section 17.9.7(b)(i).
25 Section 17.9.7(b)(ii).
26 Section 17.9.7(b)(iii).
were the case, it would prevent Australia from implementing the 2003 Decision under TRIPS.\textsuperscript{27}

The ALRC Report on Gene Patenting concluded that AUSFTA restricts the "reasonable requirements of the public test" to matters related to competition within a market or public non-commercial use.\textsuperscript{28} However, section 17.9.7(b)(i) restricts public non-commercial users to the government or third parties authorised by the government, suggesting that this provision concerns Crown use rather than compulsory licensing. Given that a new anti-competitive conduct test has been added to section 133 Patents Act (and is apparent in AUSFTA at (a)), it is unclear whether there is any genuine scope for issuing a compulsory licence under the "reasonable requirements test". However, the Australian Government has advised that it does not intend to amend the existing test in light of AUSFTA. The approach preferred by the Australian Government is that the term "anti-competitive practices" addressed in AUSFTA should be interpreted broadly so as to cover the existing compulsory licence provisions under the Patents Act, and this will include "the grant of a compulsory licence if, among other conditions, 'the reasonable requirements of the public' have not been met".\textsuperscript{29}

4. Court Determination of Licence Terms and Conditions

Case law of the United Kingdom demonstrates that courts and relevant authorities (Comptroller-General of the Patents Office, and Patents Court) in that jurisdiction have been able to determine licence terms and reasonable royalty rates for compulsory licences under legislation analogous to that in Australia.

*In the Matter of an Application by McKechnie Bros Ltd's for a Compulsory Licence in respect of certain Letters Patent* (1934) 51 RPC 461 concerned a patent granted to a German company in respect of improvements in the manufacture of lithopone. The assignees and their licensees of the patent appealed against the decision of the Comptroller who had allowed McKechnies' application for a compulsory licence under section 27 of the Patent and Design Acts 1907 to 1932. Justice Luxmoore of the High Court of Justice upheld the decision of the Comptroller to order a compulsory licence and found that the reasonable royalty be determined by looking at the royalty reserved in the original licence agreements between the patentee and the original licensees, which was assumed to have been fixed on a fair commercial basis from the point of view of the patentee.

*In the Matter of an Application by A. Hamson & Son (London) Limited for a Licence under No 635,123* [1958] RPC 88 concerned a compulsory licence application under section 37 of the Patents Act 1949. Having determined that the grounds under section 37 had been made out by the applicants, the Superintending Examiner (acting for the Comptroller-General) granted a compulsory licence and ordered that the terms of the licence, including the royalty rate, be determined at a subsequent hearing following the applicants' submission of a draft licence agreement (with supporting financial and commercial evidence), upon which the patentee could comment (with supporting financial and commercial evidence). The applicants submitted a draft compulsory licence agreement,


which the patentee did not oppose, and which was ultimately granted by the Superintending Examiner.

*Penn Engineering and Manufacturing Corp's Patent* [1972] FSR 533 was heard before the Patents Appeal Tribunal (on appeal from the decision of Superintending Examiner, acting for the Comptroller-General) and concerned an application for a compulsory licence under section 37 of the *Patents Act 1949* in relation to a patent covering self-anchoring studs. The Superintending Examiner, having found that a demand for the patented article in the United Kingdom was being met solely by importation, went on to decide that a non-exclusive compulsory licence should be granted to the applicants. After hearing expert evidence, the Superintending Examiner further determined the rate of royalty at five per cent of the licensees' net selling price by reference to royalties in comparable licence agreements relating to engineering components, and that this rate was sufficient to ensure the patentees' reasonable remuneration. Justice Graham of the Patents Appeal Tribunal upheld the Superintending Examiner's decision to grant a compulsory licence, the terms of that licence and the associated royalty rate.

The Court of Appeal's decision in *Allen & Hanburys Limited's (Salbutamol) Patent* [1987] RPC 327 has been considered by later courts as laying down the current guidelines for determining the royalty rate for a compulsory licence. In that case, the patent in suit related to salbutamol, a pharmaceutical used in the treatment of asthma. The applicants for a "licence of right" under section 46 of the *Patents Act 1977*33, having been unable to agree on a royalty and certain other terms with the patentees, sought to have them settled by the Comptroller. The majority of the Court held that the powers of the Comptroller when settling the terms of a licence were to be exercised with a view to ensuring, among other general purposes, that the patentee received reasonable remuneration having regard to the nature of the invention (as per section 50(1)(b) of the *Patents Act 1977*34).

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30 ps 539-540.
31 p 545.


In fact one of the ways by which a patent might come to be the subject of a licence of right is by an application under section 48(1)(b): Justice Dillon at p 368 in *Allen & Hanburys Limited's (Salbutamol) Patent* [1987] RPC 327.

The link between sections 46 and 48 is particularly strong, because where an application is granted under section 48, the Comptroller has alternative powers, one of which is to order the compulsory registration of the patent under section 46. The other power is to grant a licence either to the applicant or, where the applicant is a government department, to the person specified in the application, but in each case "in such terms as the Comptroller thinks fit": per Lord Justice Woolf at p 384 in *Allen & Hanburys Limited's (Salbutamol) Patent* [1987] RPC 327.

34 Section 50(1)(b) provides that, in exercising his power to order a compulsory licence under the Act, the Comptroller must secure, among other things, that "the inventor or other person beneficially entitled to a patent shall receive reasonable remuneration having regard to the nature of the invention." Section 50(1) had been previously acknowledged as providing guidance on the objects which Parliament intended to be
The effect of this was that a court had to consider what a willing licensor and a willing licensee would have agreed upon as a reasonable royalty to be paid for the rights granted to the applicant under the proposed licence. The elements required to be taken into account when considering what amounted to "reasonable remuneration" included those under section 41 of the Patents Act 1949, namely allowances for the recovery by the patentee of the costs of discovering the drug and establishing its efficiency (research and development costs), allowances for the recoupment to the patentee of the promotional expenses incurred in creating and maintaining the market for it (promotional costs), and a reward to the patentee for his contribution to the art secured by an appropriate measure of profit upon the capital invested (profit uplift). Finally, the Court held that the patentee's position as manufacturer was an irrelevant consideration in fixing the royalty.

The most recent of the five cases analysed is In the Matter of the Patents Act 1977 and In the Matter of Smith Kline & French Laboratories Limited's Letters Patent Nos. 1,338,169 and 1,397,436 v In the Matter of the Application of Generics (UK) Limited for Settlement of Terms of a Licence of Right Thereunder [1989] EWCA Civ J1214-7. The two appeals in this case concerned the terms of licences of right to be granted to the applicants Generics (UK) Limited and Harris Pharmaceuticals Limited who wished to manufacture, import and sell Smith, Kline and French Laboratories Limited's patented product, cimetidine. Specifically, the Court of Appeal, on appeal from the Patents Court, determined the appropriate royalty rate for the previously granted licences of right. In affirming its earlier approach in Allen & Hanburys Limited's (Salbutamol) Patent [1987] RPC 327, the Court held that determination of a fixed royalty rate per unit quantity of the patented product used was primarily a matter of fact and discretion of the Patents Office and Patents Court (on appeal), based on expert evidence such as that from expert economists and accountants, and that the principle of "reasonable remuneration" can be determined by analysing the nature of the invention, comparable licence royalty rates, and section 41 of the Patents Act 1949 considerations.
Australian courts could seek guidance from the jurisprudence of the United Kingdom in applying the current compulsory licence provisions under the *Patents Act*.

5. **Technology Neutral**

The compulsory licensing provision should remain technology neutral as a matter of general principle and in accordance with the Australian Government's obligations under international agreements.

The separate treatment of a specific field of technology such as health, pharmaceuticals or gene technology is likely to lead to legislative complexity, the use of loopholes, inconsistency, and the need for judicial intervention to resolve issues, and therefore should not be implemented.

Furthermore, the separate treatment of a specific field of technology may be an unjustifiable discrimination against a field of technology that is offensive to TRIPS and AUSFTA-defined international patent norms and other treaties or agreements to which Australia is a party.40

This is consistent with the general scheme of the *Patents Act* and in particular Sections 119B and 119C of the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012*, which is technology and industry neutral. Section 119A of the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012*, which is an exception, deals with a minor and very specific issue.

6. **Crown Use**

The Crown use exception in the *Patents Act* should not be used as a general, substantial alternative to the compulsory licence exception. Section 163(3) of the *Patents Act* allows for exploitation of an invention by the Commonwealth or a State "for the services of the Commonwealth or a State" provided that the exploitation is "necessary" for the proper provision of those services. Hence, the Crown use exception is more limited in scope compared to the compulsory licensing provisions in sections 133 and 135 of the *Patents Act* which have a broader focus on meeting the "reasonable requirements of the public" and addressing anti-competitive conduct.

The scope of the Crown use exception has been further limited by the inclusion of section 165A into the *Patents Act* which provides that a court can declare that the Commonwealth's or State's exploitation of the invention is not, or is no longer, "necessary" for the proper provision of services of the Commonwealth or State, and can further order the Commonwealth or the State to cease exploiting the invention. Section 165A of the *Patents Act* was introduced in the context of the *Patents (World Trade Organization Amendments) Act 1994* (Cth). The Explanatory Memorandum to the *Patents (World Trade

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40 TRIPS article 27.1, and generally, article 31 (reference to 'a patent' without discrimination based on field of technology); Australia-United States Free Trade Agreement section 17.9.1.
Organization Amendments) Act 1994 does not clarify the intended operation of section 165A, however, it states that "the purpose of this Bill is to amend the Patents Act to bring it in line with the standards and principles prescribed for patents in the agreement establishing the World Trade Organisation". The international Crown use provisions contemplated by the Australian Government are provided in TRIPS (article 31(g)) and AUSFTA (section 17.9.7(b)(i)). Notably, article 31(g) of TRIPS refers to the termination of the authorised use of a patent where the circumstances which led to the authorised use no longer exist.

There has been no judicial authority on the interpretation of "necessary" to date, but it is the view of the IPC that "necessary" is likely to be interpreted as "substantially more than convenient" or "reasonably required to achieve the benefits of economy and efficiency" in line with the term's judicial interpretation in other legislation and case law. Under such an interpretation, it is unlikely that the Crown use exception could be applied in a situation where price negotiations for a voluntary licence are on foot or where the patented product is in fact available, albeit at a higher price. It is possible that the Crown use exception could be applied in situations where the price of the patented product is greater than what is reasonable, where the patented product is urgently needed and there is no time to negotiate a voluntary licence, and where the patented product is not available for licence (in which case the current compulsory licensing provisions could be utilised).

However, the IPC submits that the Productivity Commission’s specific concern for compulsory licensing of gene patents, as opposed to patents generally, can be more appropriately addressed through the experimental use exception. In particular, section 119C of the Intellectual Property Laws Amendment (Raising the Bar) Act 2012 effectively addresses one of the criticisms of gene patenting by providing a research and development exemption titled "acts for experimental purposes". This exemption permits genuine research to continue despite the presence of gene patents covering, for example, diagnostic type products.

### 7. Collecting Schemes

Collecting schemes are unlikely to have any useful place in the context of patents. While there are examples of industries (including aspects of computer technology) where widespread non-exclusive licensing, including bulk pricing of patents, is known, we are not aware of any examples of a successful collecting scheme for patents anywhere in the world. It is likely that the reason for that is quite fundamental. In particular, the variable nature and value of patent rights would mean that the determination of price to users and the distribution of royalties to patentees would frequently need to be assessed on a case by case basis. The ability to determine a standard general charging mechanism and a fair general method of splitting the revenue among IP owners, which are the key to collecting schemes, are not present. Administrative costs and disputes at both levels are likely to consume any return.

While a collecting scheme arrangement could be implemented on a voluntary basis, there is no present need for a statutory-based scheme.

### 8. Compulsory Licensing Statistics

World Intellectual Property Organisation resources indicate that as of March 2011 the following number of compulsory licences had been granted for patents in the named regions: 36 in Africa, 25 in Central and Latin America, 34 in Asia and Oceania, 39 in
Europe, and 30 in OECD countries. In the Asia and Oceania region 85.2% of the licences granted were for reasons involving non-working of the patent, 70.5% were for reasons involving public interest, 55.8% were for reasons involving correction of patent abuse, and 55.8% were for reasons involving government use.41

The article by Reed Beall and Randall Kuhn, 'Trends in Compulsory Licensing of Pharmaceuticals Since the Doha Declaration: A Database Analysis' (2012) 9(1) Public Library of Science e1001154, concludes that there have been 24 instances where compulsory licences relating to pharmaceuticals have been publicly entertained or announced by 17 WTO Member states following the Doha Declaration between 1 January 1995 and 6 June 2011. Twelve out of 24 compulsory licence instances resulted in the announcement of a compulsory licence, but the great majority ended in a price reduction for the potential issuing nation, whether via a compulsory licence, voluntary licence, or discount.42 Most of these instances occurred between 2003 and 2005 involving drugs for HIV/AIDS, and occurred in upper-middle-income countries. The article and the supporting information annexed to the article contain useful summary tables and a compilation of case summaries of the 24 instances of compulsory licensing.

9. General

As noted in the summary, the IPC is concerned that any scheme relating to compulsory licensing should balance the positive and negative effects of compulsory licensing.

A useful summary of the potential negative economic effects of domestic compulsory licensing, which the Productivity Commission should consider, is contained within Dr Richard P Rozek's article, 'The Effects of Compulsory Licensing on Innovation and Access to Health Care' (2000) 3 Journal of World Intellectual Property 889. Dr Rozek's article is based on the Canadian experience under Canada's former compulsory licensing scheme.

In the pharmaceutical context, a party wishing to gain access to the pharmaceutical market can be assisted by section 119A of the Patents Act which exempts from infringement acts done solely for the purpose, or connection with, obtaining regulatory approval for a pharmaceutical. Similarly, section 119B of the Intellectual Property Laws Amendment (Raising the Bar) Act 2012 exempts from infringement acts done solely for the purpose, or connected with, obtaining regulatory approval for agro chemicals, veterinarian medicines, medical devices, diagnostics and any other non-pharmaceutical subject matter for which there is a legally established regulatory approval regime. Section 119B is not prescriptive and is intended to cover both the current regulatory approval regimes and those that may be established in the future. Finally, section 119C of Intellectual Property Laws Amendment (Raising the Bar) Act 2012 exempts genuine acts of research and development from infringement provided that the experimental activities are related to the subject matter of the invention. Therefore, inability to negotiate a

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42 Reed Beall and Randall Kuhn, 'Trends in Compulsory Licensing of Pharmaceuticals Since the Doha Declaration: A Database Analysis' (2012) 9(1) Public Library of Science e1001154, p.3.
licence is not an impediment to undertaking certain steps in relation to subject matter covered by a patent.

The matters identified in the headings above assist to maintain the delicate *equipoise* between stimulating investment and innovation on the one hand, and general public, competitor and researcher access to new technology on the other hand that underpins the *Patents Act*.

The IPC would be happy to discuss any aspects of this submission. Further enquiries should be directed in the first instance to the Committee Chair, Maurice Gonsalves, on 02-9296 2166 or via email: maurice.gonsalves@au.kwm.com

Due to time constraints, this submission has not been considered by the Directors of the Law Council of Australia.

Yours faithfully

![Signature]

Professor Sally Walker  
Secretary-General

The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (the IPC) makes the following comments in relation to the Pharmaceutical Patents Review Draft Report 2013 (the Draft Report). The IPC has chosen not to comment on all of the recommendations contained in the Draft Report.

Draft recommendation 4.1
As an interim measure, the Government should actively seek the agreement of the owners of Australian pharmaceutical patents to voluntarily agree not to enforce their patents in respect of manufacturing for export.

In relation to this recommendation, the IPC notes that the Government is still considering public submissions on the Draft Exposure Intellectual Property Laws Bill 2012. Under Schedules 1 and 2 of this Bill, Australian generic medicine producers would be able to export patented pharmaceuticals to developing and least developed countries under a compulsory licence from the Federal Court. Such a licence would only be granted under strict conditions that balance the interests of patent owners, generic manufacturers and importing countries. These amendments to the Patents Act 1990 (Cth) (the Patents Act) will bring about Australia’s compliance with the requirements of the 2003 Doha Declaration on public health and the terms of proposed art 31bis of the TRIPS Agreement. Given the present state of the parliamentary agenda in an election year, however, it may be that these amendments will not be passed for some time.

Draft recommendation 4.1 is essentially concerned with a distinct and further issue, namely the possibility that generic manufacturers should be allowed freely to manufacture pharmaceutical products covered by Australian patents where this is done for export generally. This is on the basis that, as a matter of principle, the exclusive rights of the patentee should be limited to those that are necessary for commercial exploitation in the domestic market and that, in this regard, these rights should not extend to preventing the manufacture of products for export (as these will not compete in the domestic market).

Members of the IPC have differing views on the acceptability of this principle, but it is noted that the Panel accepts that, in any event, such an interpretation of the exclusive rights of patentees probably runs counter to the provisions of the TRIPS Agreement and
the Australian US Free Trade Agreement (the AUSFTA), subject perhaps to some minor exceptions where the manufacture is done for the purposes of seeking regulatory approval in another country (as presently allowed under s 119A(1)(b) of the *Patents Act 1990*). Accordingly, the Panel’s proposal is a much more limited one, namely that the Australian Government, as an interim measure (presumably while TRIPS and AUSFTA are renegotiated), should actively seek the agreement of Australian pharmaceutical patentees not to enforce their patents where generic producers manufacture for export.

As this recommendation does not involve any change to existing laws, the IPC offers no comment on its desirability other than as follows.

1. A general exhortation to Australian pharmaceutical patentees along the lines of the recommendation is likely to be of limited value as it would be directed at a wide range of circumstances in which generic manufacturers might desire to engage in domestic manufacture for export.

2. Having said this, there will certainly be some situations involving epidemics and major health emergencies in developing and least-developed countries in which it might well be appropriate for the Australian Government to approach Australian pharmaceutical patentees to allow manufacture for export, particularly in the absence of the proposed compulsory licence amendments. In such cases, the IPC believes that patentees, as good corporate citizens, would be amenable to such requests and that this should be encouraged in the interests of public health.

The IPC reserves its position on whether, assuming it were TRIPS- and AUSFTA compliant, Australian patent law should be amended so as to exclude manufacture for export from the exclusive rights of patentees.

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<th>Draft recommendation 5, Option 5.1</th>
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<td>The current model of using the patents system to subsidise pharmaceutical R&amp;D indirectly should be replaced with a direct subsidy. To this end, the Government should reduce extensions of term for pharmaceutical patents and use part of the associated savings to fund R&amp;D directly. Some of this funding should be targeted to socially beneficial research for which patents provide inadequate incentives to conduct. Such areas include new antibiotics which, once developed, must be used as sparingly as possible to prevent the development of antibodies and pharmaceuticals to address rare diseases, paediatric illnesses and endemic health issues in low income countries. This option could also include an annual review of the savings delivered through any reduction in the length of extensions of term to be used in allocating funding to the replacement R&amp;D subsidies.</td>
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The IPC does not support the replacement of the existing patent term extension regime (or reduction in the current level of available patent term extension) to be replaced by a direct pharmaceutical R&D subsidy.

The avowed intention of the current patent term extension regime is to provide an effective patent term of 15 years following regulatory approval of a pharmaceutical product.
Although patent term extensions may provide originator drug companies with some compensation for the cost of bringing drugs to market this is clearly not the primary rationale for the extension regime. As the Draft Report itself notes:\(^1\):

> “Extensions of term provide some compensation for the costs of bringing drugs to market, but the extent of this compensation would only be a small percentage of total R&D expenditure.”

The IPC considers that no logical correlation has been disclosed between the length of pharmaceutical patent term extensions and the amount of pharmaceutical R&D expenditure in Australia.

The patent term extension regime currently in place can be seen as a quid pro quo for the period during which the patentee of a pharmaceutical product is unable to put that product into the Australian market place by reason of it having to apply for and obtain regulatory approval. The cost to the Pharmaceutical Benefits Scheme during that period, when of course the product the subject of that patent is not on the market, is nil.

Even the data referred to in the Draft Report establishes the proposition that many pharmaceutical products the subject of a patent term extensions do not receive 15 years of effective protection because of the existing 5 year cap on such extensions. The Draft Report includes Figure 5.8 entitled “Effective patent life provided under current provisions – frequency histogram”\(^2\).

The Draft Report states:\(^3\):

> “More than half of all patents extended under the current provisions have received the maximum effective patent life after marketing approval of 15 years…”

And:

> “The median effective patent life provided by the extension of term has remained at or close to 15 years each since its introduction.” (emphasis added)

The IPC notes that another way of considering the data in figure 5.8 included in the Draft Report is to say that 47% of all extended patents, in fact, fail to achieve a 15 year effective term.

Given that the rationale for the introduction of the current patent term extension regime was to provide an effective 15 year pharmaceutical patent term and in light of the fact that there is no logical correlation between the duration of pharmaceutical patent term extension and the incentive for drug companies to conduct pharmaceutical R&D in Australia there would appear to be no demonstrated basis for the proposition that the maximum duration of patent term extensions for pharmaceutical products in Australia ought to be reduced or removed.

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2. See Draft Report page 78.
Draft recommendation 5, Option 5.2
The Government should change the current extension of term provisions such that patents receiving an extension of term in Australia will not expire later than the equivalent patents in major trading partners. Potential ways of achieving this include:
(a) Providing an extension expiring up to 5 years after the original patent term or upon the expiry of the equivalent patent extension in one of a list of other jurisdictions including the United States and European Union. This option ensures Australian extended patents would not expire later than equivalent patents elsewhere. If originators are unable to seek regulatory approval in Australia at the same time as elsewhere, this option would reduce the effective patent life.
(b) Changing the method of calculating the length extensions of term to provide an incentive to submit applications for regulatory approval in Australia earlier than is currently the practice. This could be similar to the US method described above. This option creates an incentive to seek regulatory approval in Australia as soon as possible, reducing delays in access to medicines for Australian health consumers. Under this system, one-to-one compensation is still provided for the time taken to process applications for regulatory approval.

The IPC does not support replacing the current method of calculating extensions of term contained in section 77 of the Patents Act with the alternative methods set out in draft recommendation 5, option 5.2.

The IPC considers that in order to justify any change there must:
- first, be a compelling economic, social or legal reason (in the sense of within power, constitutional, and compliant with international commitments) to do so; and
- second, an alternative provision that is clear, simple, and sufficiently certain to be easily understood and applied.

The Draft Report does not in the IPC's view advance a compelling case justifying change for the following reasons:
(a) as the Draft Report concludes, the Draft Report figures 5.12, 5.13 and 5.14 and table 5.6 do not result in a significantly longer exclusive period in the Australian market compared especially to the United Kingdom and the United States.
(b) the two suggested alternative methods of calculating an extension do not appear to the IPC to necessarily and effectively address the two stated reasons for the proposed change namely:
- prevention of Australian generic manufacturers being able to manufacture during the Australian patent term for export to countries where corresponding patents have expired and/or
- disadvantage to Australian generic manufacturers as against overseas based manufacturers resident in jurisdictions where corresponding patents have expired who could stock pile for immediate entry into the Australian market upon expiry of the Australian patent.
The current section 77 of the Patents Act is legally sound in that it is compliant with the AUSFTA which refers to adjusting the patent term to compensate the patent owner for unreasonable curtailment of the effective patent term as a result of the marketing approval process. The AUSFTA does not specify a specific length of time for an extension but the Draft Report shows that the outcome of application of the section 77 formula is to achieve an effective patent life comparable to two of Australia's major trading partners, namely the United Kingdom and the United States. Furthermore, the extension available under section 77 of the Patents Act is designed to compensate for delay due to the marketing approval process.

The section 77 formula is clear and has been successfully applied without complaint since introduction of the current extension regime in 1999. In the IPC's opinion the current clear, simple, easily understood and applied system should be retained and not replaced with a system that is either subject to the vagaries of a system dependant, for example, upon the timing and success of obtaining approval to conduct, and to recruit and conduct clinical trials, or a complicated formula requiring identification of expiry of patent term extensions in other jurisdictions.

**Draft recommendation 7.2**

The Government should establish an external patent oversight committee that is tasked with reviewing grants and decisions issued by IP Australia and auditing the processes involved in making such decisions.

The IPC does not support the recommendation to establish an external patent oversight committee charged with the task of reviewing grants and decisions issued by IP Australia and auditing the processes involved in making such decisions.

Australia has a well established legal process by which decisions of IP Australia with relation to the grant or refusal of a patent application are subject to review by the Administrative Appeals Tribunal and/or the Federal Court.

The interposition of a “patents oversight committee” simply would add another level of bureaucracy leading to increased complexity and cost that would appear to offer no additional practical benefit to stakeholders.

The IPC observes that it is also unclear as to what status any such oversight committee would have. Indeed, it might be questioned whether such a committee would have constitutional validity.

**Draft recommendation 8.2**

A transparency register linking therapeutic goods registered with the TGA with related patents should be introduced.

The Draft Report recommends the introduction of a so-called “Transparency Register” linking therapeutic goods registered on the ARTG with related patents. As a matter of general principle the IPC supports a recommendation that would facilitate the early identification and resolution of patent disputes relating to pharmaceutical products.
The IPC notes that the recommendation includes a proposal that only patents that are “directly related” to the listed product would be required to be listed on the “Transparency Register” by the sponsor/patentee. This would not, for example, include a patent for a new method of use of a product.

If the Transparency Register were to include only patents "directly" related to the listed pharmaceutical product it is submitted that there would need to be a clear definition of what "directly" means and there would have to be equally clear consequences arising as a result of inclusion or omission of a patent from the Register. Any ambiguity in relation to these matters would undermine the utility of the Register.

Many pharmaceutical patent disputes relate to patents which, on the recommendation in the Draft Report, would be excluded from the Register. For example, would the Register identify patents for new indications, new formulations, new salt forms or new crystalline structures? These types of patents are equally likely to be the subject of dispute as are patents relating to active pharmaceutical compounds themselves (and, arguably, more so).

The recommendation would also still require generic manufacturers to provide a section 26B certificate under the Therapeutic Goods Act and would require generic manufacturers to conduct their own freedom to operate searches. The recommendation also appears to require the generic manufacturer to notify the relevant patentee (presumably ascertained from reviewing the Register) of the filing of an application of the generic product for inclusion on the ARTG. The retention of section 26B certificates is undesirable.

A Transparency Register would only be sensible if:

• all patents directly relevant to a particular pharmaceutical product registered on the ARTG are listed by the relevant patent owner (not just a product sponsor);
• directly relevant patents not listed on the Register cannot be enforced against a generic manufacturer;
• an applicant to register a generic product on the ARTG is required to give notice to the TGA and to each owner of a relevant patent;
• the Register supplants any other type of certification required to be given by a sponsor of a new generic product (those currently described in section 26B of the Therapeutic Goods Act);
• a time frame (perhaps extendable for good cause with the leave of the court) is prescribed for the commencement of any legal proceedings which may follow as a consequence of the certification.

**Draft Recommendation 9.1**
The Government should actively contribute to the development of an internationally coordinated and harmonised system where data protection is provided in exchange for the publication of clinical trial data.

Although the Panel is correct in saying a biosimilar cannot rely *solely* on the clinical data of the reference product, if the biosimilar can satisfy the regulator of sufficient similarity to the reference product based on the Module 3 data, the regulator can dispense with the...
need to submit full Module 4 or 5 data sets, the same as a generic with a small molecule product.4

Draft recommendation 10.1
The Government should establish a non-statutory Pharmaceutical System Coordinating Committee (PSCC) that reports to Parliament on an annual basis on the success and effectiveness of the patent, marketing approval and PBS systems, particularly where these interface. The PSCC should ensure there is sufficient engagement and coordination between the relevant agencies and take account of costs to government, efficiency of registration and approval processes and respond to issues raised by industry. The PSCC should comprise senior officials from at least DIICCSRTE, IP Australia, DoHA (Pharmaceutical Benefits Division and TGA), DFAT, Finance and Treasury (as chair).

The IPC does not support the recommendation to establish a non-statutory Pharmaceutical System Co-ordinating Committee reporting to Parliament on the success and effectiveness of the patent, marketing approval and PBS systems.

The IPC considers that there ought to be sufficient levels of transparency and cooperation between the relevant governmental bodies charged with the responsibility for maintaining and operating the relevant schemes and processes to ensure that they function in an effective, efficient and complimentary way without the necessity for further levels of bureaucracy to be created.

Draft recommendation 10.2
When drafting the objects clause to be inserted in the Patents Act, as agreed to in the Government’s response to the Senate Community Affairs Committee’s Gene Patents report, the Government should take into account that the purpose of the legislation is to:

- further Australia’s national interest and enhance the well-being of Australians, including by providing reasonable access to healthcare; and
- provide strong, targeted IP protection - but only up to the point at which the costs (to consumers and the impediment of ‘follow on innovation’) are no greater than the benefits of incentivising innovation that would otherwise not occur.

Section 15AA of the Acts Interpretation Act 1901 (Cth) was inserted by section 23 of the Acts Interpretation Amendment Act 2011 (Cth). Section 15AA provides:

"In interpreting a provision of an Act the interpretation that would best achieve the purpose or object of the Act (whether or not that purpose or object is expressly stated in the Act) is to be preferred to each other interpretation."

Clearly, the 2011 amendment to the Acts Interpretation Act permits a tribunal to take into account the stated object of any legislation. However, the objects clause suggested by draft recommendation 10.2 is fundamentally flawed in the IPC’s view for two reasons.

First, the Patents Act is technology neutral thereby covering technologies as broad and diverse as mechanical, electronic, biotechnology, pharmaceutical, nanotechnology, organic and inorganic chemistry, chemical engineering, and there is therefore no justification for the introduction of an objects clause that is to a significant extent industry specific (in this case access to health care).

Second, the second limb of the clause:

"provide strong, targeted IP protection - but only up to the point at which the costs (to consumers and the impediment of "follow on innovation") are no greater than the benefits of incentivising innovation that would otherwise not occur"

would be impossible to fairly consider even with detailed evidence; and

Thirdly, and fundamentally, both limbs could be applied to undermine the exclusive right granted to the patentee which is contrary to the very purpose of the patent system enshrined in, and governed by, the Patents Act.

The IPC would be glad to expand on the above or to meet with you. Please contact the Committee Chair, Richard Hamer at Allens on 03-9613 8853 or via email:richard.hamer@allens.com.au to facilitate further discussions.

Yours faithfully,

Frank O'Loughlin
Ms Sabina Wynn  
Executive Director  
Australian Law Reform Commission  
GPO Box 3708  
Sydney NSW 2001  
Via email: copyright@alrc.gov.au

8 August 2013

Dear Ms Wynn,

Copyright in the Digital Economy DP79

The Intellectual Property Committee of the Law Council of Australia’s Business Law Section (IPC) makes this submission in response to the Copyright in the Digital Economy Discussion Paper.

Given the scope of Discussion Paper and the time available for response, the IPC does not respond to all proposals or questions in the Discussion Paper. The IPC considers, however, that it is nonetheless appropriate to act on the proposals discussed below.

The case for Fair Use in Australia

The IPC notes that Proposals 4-1 and 4-2 refer to a fair use ‘exception’. The IPC understands that it is intended the proposal will operate as a defence to copyright infringement and, as such, the person asserting ‘fair use’ will have the onus of proving the accused use is a ‘fair use’. The IPC also draws attention to the crucial points from Campbell v Acuff-Rose made at 4.9 of the Discussion Paper:

just because a use falls into one of the categories of illustrative purpose, does not mean that such a use will necessarily be fair. It does not even create a presumption that the use is fair. In every case, the fairness factors must be ‘explored, and the results weighed together, in light of the purposes of copyright’.

The IPC considers these propositions to be central to the proper and fair operation of the ‘fair use’ defence, which cannot be emphasised enough. The IPC also welcomes the potential of the ALRC’s proposal to re-focus attention on the fairness analysis in light of limited discussion of fairness considerations in cases such as the Panel case.¹ In light of that understanding, the IPC agrees with Proposals 4-1, 4-2 and 4-3 for the reasons outlined in the Discussion Paper by the ALRC.

The IPC notes that s 40(2)(c) of the Copyright Act 1968 currently also prescribes as a factor to be taken into account:

the possibility of obtaining the work, adaptation, audio-visual item or an authorised recording of the performance within a reasonable time at an ordinary commercial price,

which is not included in the ALRC’s proposal.

The IPC is concerned that a court may infer from the omission of this factor from the fairness factors, given its current inclusion in s 40(2), that this factor is not intended to be taken into account in the fairness analysis. The IPC considers that this factor may be a consideration which may be relevant in some cases. However, the IPC does not consider it is necessarily relevant in all cases. For example, it would not be relevant where an extract was being used in connection with, say, a book review. The IPC notes also that such matters are taken into account (in appropriate cases) by US courts when considering the effect of the use on the potential market for, or value of, the copyright.2 Accordingly, the IPC considers it is not necessary to include this in the list of fairness factors, but it should be made clear that such matters may well be a relevant consideration in an appropriate case.

Subject to the further comments below including in particular “non-consumptive use” and “judicial proceedings / professional advice”, the IPC agrees with the proposed non-exhaustive list of illustrative purposes included in Proposal 4-4.

The IPC submits below that a blanket defence for use in relation to judicial proceedings (including administrative proceedings) should be retained. In addition, the IPC submits that “professional advice by a legal practitioner, registered patent attorney or registered trade marks attorney” should be retained as an illustrative purpose. In this connection, the IPC notes that fair dealing for the purposes of “legal advice” is a fair dealing defence of long-standing. There is very often a need for material protected by copyright to be copied in the course of seeking or providing legal advice even when the advice does not relate or lead to judicial proceedings or copyright issues. A simple example might be a question whether a builder or sub-contractor has performed its contractual obligations to build something in accordance with a set of building drawings or the like. The types of situation where the need to reproduce some or all of material protected by copyright is not confined to such cases and will vary infinitely.

It is most important in the interests of parties being properly advised about their legal rights and obligations that it be clear that such use does not infringe copyright. In the IPC’s submission, however, existing s 43(2) appropriately recognises that a fairness factor can and should be involved. The IPC is not aware of any particular reason why other subject matter should be treated more favourably than original works. As with the other “traditional” categories, therefore, fair use is the appropriate standard rather than a blanket defence.

The IPC also notes the questions raised about “third party” use. The IPC notes that the strict approach applied in de Garis was not adopted in the very different circumstances of

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2 For example, Cambridge University Press Inc v Becker 863 F Supp 2d 1190 at 1237 (ND Georgia, 2013) citing Campbell v Acuff-Rose.
the Panel case.\textsuperscript{3} As the case law has developed in the USA, however, the courts have been able to rely on the flexibility inherent in the defence and the fairness factors to make a better informed assessment of whether a third party can legitimately rely on the defence

**Non-consumptive use**

The IPC supports Proposal 8-1 and 8-3 insofar as it relates to caching, indexing or network-related functions. The IPC is not in a position, however, to support the recommendations in relation to data and text mining at this stage.

The IPC is concerned that the terms “data and text mining” can cover a very wide range of activities which do or may not raise all the same issues. The IPC is also concerned that the issues raised by “data and text mining” are in many respects of recent emergence and not clearly understood. In this connection, the IPC notes that the exception proposed in the UK is very narrow:\textsuperscript{4}

> it is not an infringement of copyright for a person who already has a right to access a copyright work (whether under a licence or otherwise) to copy the work as part of a technological process of analysis and synthesis of the content of the work for the sole purpose of non-commercial research.

Accordingly, whether a particular use should be protected should be determined on a case by case basis under the general fair use analysis.

Further, the IPC is also concerned by the proposed definition on non-consumptive use as a ‘use that does not directly trade on the underlying creative and expressive purpose of the material’. This is likely to prove too vague and uncertain to be workable in practice. In this connection, the IPC notes that European Community directives often use the expression ‘acts … which have no independent economic significance’. While this expression also has its difficulties, the recent and lucid discussion of this concept by Lord Neuberger in the UK Supreme Court appears to capture better the idea underlying this proposed illustration.\textsuperscript{5} Accordingly, the IPC strongly recommends that the definition proposed in Proposal 8-3 not be used and further consideration and elaboration be given to explaining the proposed concept of ‘non-consumptive use’.

**Transformative use, Quotation and Fair Use**

The IPC agrees with Proposal 10-1 that a new “transformative use” should not be introduced but, as proposed in the adoption of a general “fair use” defence, the extent to which a particular use is “transformative” should be one of the factors taken into account in determining whether the use is a fair use.

The IPC agrees with the ALRC proposal that quotation should be an illustrative purpose in the fair use exception in addition to “research or study”, “reporting news” and “criticism or review”. The IPC does not consider the illustrative purpose should be further constrained by quotation for one or more specified purposes. The specification of one or particular “approved” purposes will lead to arguments that other unspecified purposes were not

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\textsuperscript{3} TCN Channel Nine Pty Ltd v Network Ten Pty Ltd (2002) 118 FCR 417 at [100] – [101].


\textsuperscript{5} Public Relations Consultants Association Limited v The Newspaper Licensing Agency Limited [2013] UKSC 18
intended to be protected. Instead, it would be preferable for the nature, purpose and the extent of use to be assessed under the fairness criteria.

**Use for judicial proceedings**

The current defences in ss43(1) and 104A given for judicial proceedings, reports of judicial proceedings give a blanket exception for copying that is not dependent on proof of ‘fairness’. For the reasons identified at 14.64 of the Discussion Paper, namely that these uses:

a. have a purpose and character that is non-commercial;

b. are necessary for activities that are central to the operation of democratic government; and

c. are not likely to have an impact on the market for the material,

the IPC considers that these blanket exceptions should be retained and not incorporated into a defence of fair use. The undesirable potential to use copyright claims to delay litigation or increase the costs of conducting litigation outweighs any likelihood of any unfair use for those purposes. Consequently, the blanket exceptions should be retained.

An example of an attempted use of copyright claims to impugn pleadings in litigation in the United States is discussed at:


While the attempt was unsuccessful and the reproduction in question permitted on the basis of fair use, the mere fact that the claim was made is an indication of the potential difficulties of reducing the level of protection currently provided.

Given government’s increasing use of tribunals to resolve disputes, the defence should apply equally to administrative proceedings as well as judicial proceedings.

**Statutory licences**

The IPC considers that the proposal to repeal the Crown Use provisions in the *Copyright Act* is at odds with the existence of Crown Use regimes in the *Patents* and *Designs Acts*. The IPC considers it would not be desirable to treat copyright differently to patents and registered designs in this respect.

The IPC notes that schedule 1 of the *Intellectual Property Laws Amendment Bill* proposes to amend the Crown use regime so that it is available for services provided or funded by the Government. Rather than narrowing the scope for Crown Use, the Parliament appears to be contemplating extending, or at least clarifying, its operation. It would be anomalous for copyright to be treated differently to patents and designs. If the reforms proposed in the *Intellectual Property Laws Amendment Bill* are enacted, therefore, the IPC submits that the Crown Use regime in the *Copyright Act* should be amended in conformity.

The IPC notes that some educational institutions may be able to benefit from the existing Crown Use provisions if Parts VA and VB are repealed. It is not clear to the IPC why such
educational institutions should be privileged in this respect over other educational institutions. Accordingly, the Act would need to be amended to prevent this.

The IPC further notes that s 107 of the Copyright Act of 1976 includes as an illustrative purpose “teaching (including multiple copies for classroom use)”. It would be consistent with the adoption of a fair use defence and the repeal of Parts VA and VB of the Act for the inclusion of a similar illustrative purpose or the addition of the words in parentheses to follow “study”. In this connection, the IPC notes that considerable guidance about the operation of this illustration has been given in Cambridge University Press Inc v Becker 863 F Supp.2d 1190 (ND Georgia, 2013), although it is understood that decision is under appeal.

Private and domestic use

The IPC supports Proposals 9-1 to 9-5 for the reasons advanced by the ALRC. In this connection, the IPC reiterates the importance of the propositions set out in paragraph 4.9 of the Discussion Paper, extracted above.

Repeal of existing defences

If fair use is enacted, the IPC supports the recommendations in Proposal 7-2, Proposal 8-2, Proposal 9-3, Proposal 13-3.

The IPC also supports the recommendation in Proposal 9-5 but, bearing in mind that the other provisions in Part III Division 4A were introduced in response to US case law ruling that such uses fell within fair use, the IPC considers that ss 47AB to 47G should also be repealed.

The IPC does not support Proposal 7-3 or 14-3. For the reasons set out above, the IPC considers a blanket defence for purposes of judicial (including administrative) proceedings should be retained. In addition, s 104(b) and (c) should be limited to “fair dealing”.

The IPC does not object to Proposal 7-4, if fair use is not adopted. It does not consider the proposal is necessary, however, as (as acknowledged in the Discussion Paper) the courts already effectively apply the approach indicated.6

If fair use is not adopted

Subject to the comments made above about non-consumptive use and judicial proceedings, if fair use is not enacted, the IPC broadly supports Proposals 8-3, 9-2, 10-3 consistently with the reasons why fair use for such purposes should be permitted.

The IPC notes, however, that this piecemeal approach is a very poor alternative which is likely to lead to much greater uncertainty and expense from the need to identify a particular category or pigeon hole in which to fit a contested use and argument over whether the use meets the criteria for that category. Further, as the Panel case7 shows, the need to consider multiple, overlapping defences can lead to considerable duplication of effort and confusion.

6 See e.g. TCN Channel Nine Pty Ltd v Network Ten Pty Ltd (2001) 108 FCR 235 at [49].
The IPC notes the submissions discussed in the Discussion Paper seeking to limit the defence of fair dealing for the purpose of reporting news to a defence only for specific organisations such as a ‘news or information service’ and that the ALRC does not appear to support such proposals. With the rise of freelance journalism and commentators through blogs, podcasts, videocasts and other online sources, the IPC also does not support such a limitation. The IPC submits that the defence should simply apply for a dealing for the purpose of reporting news and its validity be assessed in context through the fairness factors.

Orphan works

The IPC notes that much of the difficulty arising from “orphan works" results from the absence of a registration system for copyright.

The IPC notes the recent publication of two studies by the UK Intellectual Property Office examining the operation of “orphan work” regimes around the world: Orphan Works in the UK and Overseas and Copyright and the Regulation of Orphan Works.

Proposal 12-1 adopts the ‘ex post’ approach rather than the ‘ex ante’ approach in terms of the second of those studies. One potential issue with the ex post approach is that a user will not know in advance what the fee for the use would be if a copyright owner does come forward. (Of course, in many cases, the expectation may be that a copyright owner will not come forward.) The IPC notes that, for this reason, there is some evidence discussed in Copyright and the Regulation of Orphan Works that the ex post approach may be well suited to the needs for non-profit entities while commercial users may find the ex ante approach provides greater certainty.

The IPC is not in a position to assess how great the need for an ex ante approach is in fact or the feasibility of implementing a dual scheme. In the absence of implementation of Proposal 12-1, however, it is clear that use of an orphan work without permission will infringe copyright (unless another defence is applicable). That in itself will be a significant barrier to many institutions from using the material. In addition, if a copyright owner does come forward and no other defence is applicable, it is clear that damages (at least) under s 115(2) will be available as of right. Further, it is unclear to what extent the Courts are willing to adopt a “reasonable royalty” basis for assessing the amount of the damages except in situations where the copyright owner has a practice of licensing. Accordingly, the IPC considers implementation of Proposals 12-1 and 12-2 should make it clear that, assuming the conditions apply, the remedy is limited to payment of a reasonable royalty for the use in question.

8 Discussion Paper [7.45].
9 Berne Convention art. 5(2).
Contracting out

The IPC agrees with the ALRC that in certain circumstances it may be appropriate to limit parties’ ability to contract out of a copyright exception if that agreement undermines or threatens the public interests that are protected by copyright. However, the IPC is concerned that a blanket limitation on contracting out of certain copyright exceptions would unduly restrict parties’ freedom of contract. It should not be presumed that an agreement to contract out of a copyright exception is unfair or contrary to the public interest, even if that exception has a clear public purpose. For example, an author provides his or her novel to a book reviewer, for the purpose of writing a review. However, a term of their agreement is that the review must not be published until 3 months later, when the novel is publicly released. This is a fair and reasonable contractual term that limits the fair dealing exception for criticism and review.

The IPC submits that it is important to protect exceptions with copyright purposes, but acknowledges that in some circumstances, it is fair and reasonable to contract out of these exceptions and that this it is necessarily not contrary to the public interests protected by copyright. The IPC submits that the ALRC should adopt a “middle ground” position on contracting out of copyright exceptions. The question should be whether a term of an agreement that purports to exclude or limit the operation of the relevant copyright exception is fair and reasonable in all of the circumstances. In this way, both freedom of contract and the public interests protected by copyright are protected. The provision would void those contracts that are of concern to the ALRC.

The IPC considers that the current drafting of s 47H of the Act is problematic and submits that any limitation on contracting out should be drafted differently. Section 47H applies to agreements that exclude or limit the operation of certain sections. Those sections provide that certain acts do not infringe copyright. Section 47H therefore purports to invalidate agreements that exclude or limit whether or not a particular act infringes copyright. No agreement can have that affect. Therefore, any contracting out provision should focus on the acts contemplated by the exception.

The IPC submits that the ALRC should propose the introduction of a provision that a term of a contract is void if (a) the term prevents a person from doing an act falling within one of the nominated exceptions; and (b) the term is unfair or unreasonable. The provision could set out factors to be taken into account in determining whether the term is unfair or unreasonable.

Assistance from foreign jurisdictions

The IPC notes that there have effectively been few substantive decisions interpreting the fair dealing provisions since the Act was enacted in 1968. It seems unlikely, therefore, that a very substantial body of case law interpreting the proposed general fair use defence will develop very quickly. In these circumstances, the IPC considers it is imperative that the Courts and practitioners be given strong encouragement to look to how fair use is applied in those jurisdictions overseas which have already adopted it, particularly the well-established body of case law under the US Act to assist in determining how the flexible

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standard will apply. The IPC considers the need for such encouragement is all the greater in light of arguments, reported in the Discussion Paper, that US conditions are very different to conditions in Australia. The IPC notes further that, for example, the Explanatory Memorandum on the Intellectual Property Laws Amendment (Raising the Bar) Act 2012 expressly stated that some concepts introduced by that Act into the patent law were adopted from and intended to be interpreted in accordance with UK or US developments.\textsuperscript{14}

If you have any questions regarding this submission, in the first instance please contact the Committee Chair, Richard Hamer, on 03-9613 8853 or via email:
richard.hamer@allens.com.au

Yours sincerely,

Frank O'Loughlin

\footnotesize{\textsuperscript{14} See e.g. EM Item 6: Usefulness - ‘specific, substantial and credible’ and Item 8: Requirement to describe the invention fully.}