
Intellectual Property Committee: Business Law Section's Response to the Draft Report – Australia's IP Arrangements

Submission to the Productivity Commission Draft Report (April 2016) – Intellectual Property Arrangements

The Intellectual Property Committee of the Law Council of Australia's Business Law Section (*IPC*) makes this submission in response to the 'Productivity Commission Draft Report: Intellectual Property Arrangements (April 2016)' (*Draft Report*).

1 Overview

The Draft Report raises many issues which are worthy of discussion, and is therefore a useful discussion paper. The IPC is supportive of a number of the recommendations. Some have been the subject of previous detailed review and should be implemented.

However, whilst holistic, the Draft Report is so broad ranging that, despite its overall length, the treatment of many of the specific topics is necessarily quite superficial. A number of the specific recommendations are not supported by any evidence or are not supported by the level of empirical evidence that the Draft Report itself recommends should be used to inform policy decisions.

Some of the recommendations descend to very specific detail (such as proposed legislative wording) without any evident consideration of the complete legislative and legal framework and without any empirical evidence about the current position or the effect of the proposal. In some cases the recommendation is contrary to previous expert reviews. There are a number of errors. Some of the recommendations are based on anecdote about the historical position rather than consideration of the current law.

Although the balance of this submission attempts to deal with some of these issues, a very limited amount of time has been allowed to respond to the Draft Report and it has therefore not been possible to address all of the matters raised by the Draft Report in the time available. To the extent that the Commission has raised an issue or question in the Draft Report which is not addressed below, the IPC is not in a position to provide comments at this stage.

It is submitted that, as a general approach, where legislative change is recommended (excepting those which have already been the subject of expert review), this should be referred to a body which includes in its composition representatives with appropriate expertise in IP law and policy, and the commercialisation of IP. This body should obtain and consider empirical data in relation to the proposed legislative change.

To the extent that the Draft Report embodies a high level policy, the policy boils down to this: as a net importer of IP, Australia should confer the minimum IP protection it can justify. A number of general observations can be made about this policy.

First, a likely long term consequence of this approach will be to encourage other nations to adopt or maintain similar beggar-thy-neighbour policies - with a detrimental effect on global innovation - or lead to increasingly prescriptive treaties and trade agreements as a condition of trade in the goods and services which Australia wishes to export.

Secondly, the approach subjugates the interests of Australian innovators seeking to protect intellectual property in Australia (and elsewhere), and ignores evidence of the impact of the availability of IP rights in Australia on the decision to conduct research in Australia and on the decision to introduce or use innovations in the Australian market.

2 Chapters 1, 2 and 3: About the inquiry, assessing the system, and how does it fare?

The Draft Report ignores, and does not account for, the value that IP contributes to the Australian economy in terms of generating and making available improved products and processes.

In various places, the Draft Report misunderstands the nature of rights conferred by IP. For example, Box 1.2 states that 'IP rights establish ownership *and rights to use*'. In fact, IP rights generally confer the right to exclude others, and do not grant a right to use. For example, a patent for a new molecule to be used in the treatment of an ailment does not grant the patentee a right to use that invention without first going through the requisite regulatory approvals process. However, the patentee has the right to exclude others from exploiting that invention. Further, there is no express obligation to use the invention (though there may be consequences for failure to exploit an invention, such as Crown exploitation, Crown acquisition and compulsory licences).

In addition, in various places the Draft Report conflates or confuses different IP rights, or speaks generally about IP rights while providing a specific example that relates to one class of IP rights. For example:

- p. 51: 'Intellectual property (IP) rights are intended to encourage more creative and innovative activity by providing a legal and exclusive right to stop others from using the expression of ideas without permission or payment.' - The IP right described here is specific to copyright, and does not apply to IP generally. For example it is not possible to obtain a patent for an abstract idea.
- p. 52: 'The incentives created by IP to develop new expressions of ideas or creative works ('ideas') are part of the innovation system' – again this description of IP is specific to copyright only.
- p. 53 'This is one of the main justifications of IP rights — that the legal rights applied to the expression of the ideas provides a way to exclude the use of ideas without consent (or payment)' – again the description applies only to copyright and not IP generally.

3 Draft recommendation 2.1

In formulating intellectual property policy, the Australian Government should be informed by a robust evidence base and have regard to the principles of:

- *effectiveness, which addresses the balance between providing protection to encourage additional innovation (which would not have otherwise occurred) and allowing ideas to be disseminated widely*
- *efficiency, which addresses the balance between returns to innovators and to the wider community*
- *adaptability, which addresses the balance between providing policy certainty and having a system that is agile in response to change*
- *accountability, which balances the cost of collecting and analysing policy-relevant information against the benefits of having transparent and evidence-based policy that considers community wellbeing.*

In addition to the principles proposed by Draft Recommendation 2.1, which the IPC supports, the IPC considers that in order to justify any legislative 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, be an alternative provision that is clear, simple, and sufficiently certain to be easily understood and applied.

4 Chapter 4: Copyright term and scope

4.1 Draft recommendation 4.1

The Australian Government should amend the Copyright Act 1968 (Cth) so the current terms of copyright protection apply to unpublished works.

The IPC supports this recommendation. The IPC notes that schedule 3 of the exposure draft of the Copyright Amendment (Disability Access and Other Measures) Bill 2016 was directed to this issue. However, the IPC noted that the definition of when a work has been made public proposed by item 34 of the exposure draft extended to works (or adaptations) which have been published, performed in public or broadcast.

4.2 Draft finding 4.1

Australia's copyright system has expanded over time, often with no transparent, evidence-based policy analysis demonstrating the need for, or quantum of, new rights.

The IPC does not consider that this draft finding reflects the evidence advanced in the Draft Report. The IPC considers that the copyright 'system' has expanded and developed over time to reflect changing technology. The IPC notes that both in Australia and at the international level proposed changes have been extensively debated.¹

That said, as indicated in section 1.16 of the IPC's December 2015 submission², there have been instances such as the recent *Copyright Amendment (Online Infringement) Act 2015* where important reforms have been introduced into Parliament without a public prior review process. On the other hand, there are multiple reviews, which have been subject to a transparent, public prior review process and consideration of evidence, but do not appear to have been responded to by government. It would be desirable for the government to respond to considered reform recommendations when they have been made. In addition, the IPC recommends that all legislative changes in the IP area, including copyright, should be subject to a transparent prior review process before being introduced into Parliament.

5 Chapter 5: Copyright licensing and exceptions

5.1 Draft recommendation 5.1

*The Australian Government should implement the recommendation made in the House of Representatives Committee report *At What Cost? IT pricing and the Australia tax to amend the Copyright Act 1968 (Cth)* to make clear that it is not an infringement for consumers to circumvent geoblocking technology.*

The Australian Government should seek to avoid any international agreements that would prevent or ban consumers from circumventing geoblocking technology.

¹ For example the European Union's decision to extend the term of copyright protection over sound recordings by 45 years was made despite its own expert evidence: See Nate Anderson, 'EU Pays for, then ignores study on copyright extension,' [Ars Technica](#) 27 August 2008. Similarly, government officials regularly point out that, when considering the terms of treaties such as the TRIPS Agreement and the Australia-US Free Trade Agreement, Australia often makes concessions in relation to matters such as intellectual property in return for concessions made in relation to other trade issues.

² Intellectual Property Committee of the Law Council of Australia's Business Law Section 'Submission in Response to the Competition Policy Review Final Report' dated 15 May 2015; Intellectual Property Committee of the Law Council of Australia's Business Law Section 'Response to the Productivity Commission Issues Paper, Intellectual Property Arrangements' dated 1 December 2015 at paragraph 1.16.

The IPC broadly supports the objectives proposed in this draft recommendation. The IPC considers that, in implementing the recommendation, the approach should be consistent with its submission at section 3 above that the provision should be clear, simple, and sufficiently certain to be easily understood and applied. The implementation of this recommendation requires a general review of the *Copyright Act 1968 (Cth)* (**Copyright Act**) and other relevant legislation to ensure that the amendment is consistent with – and not hampered by – other legislative provisions, and that the amendment does not have any unintended consequences. For example, consideration should be given to interaction with section 116AN and related sections of the *Copyright Act* regarding circumvention of access control technological protection measures. As geoblocking inherently raises trans-jurisdictional issues, careful consideration should also be given to the equivalent legal structure in other jurisdictions.

5.2 Draft Recommendation 5.3

The Australian Government should amend the Copyright Act 1968 (Cth) (Copyright Act) to replace the current fair dealing exceptions with a broad exception for fair use.

The IPC supports implementation of the broad fair use exception recommended by the ALRC, which was the subject of extensive consultation and careful analysis.

However, the IPC does not support the broader exception proposed by the Draft Report. The ALRC recommendation takes into account the effect of any exception on the market for copyright works, which is sufficient to appropriately address the concerns raised in the Draft Report regarding access to content.

As the Draft Report notes, the reform recommended by the ALRC would be an important and major reform. It has also proved to be a successful model in practice where it provides an effective counterbalance to over-reaching of the exclusive rights conferred on rights holders. The IPC considers that the much broader exception proposed by the Draft Report would involve a substantial inversion of the rights-based system established under the major international treaties in this field including, in particular, the Berne Convention, the Agreement on Trade-Related Aspects of Intellectual Property Rights (**TRIPS**) and the Australia-US Free Trade Agreement (**AUSFTA**). Moreover, that inversion appears to the IPC to contravene Australia's obligations under article 13 of TRIPS, which requires limitations and exceptions to the exclusive rights to be confined to:

certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.

The IPC notes that the ALRC also made recommendations in relation to orphan works. The IPC broadly supports those recommendations. The IPC does not think that that the treatment of 'orphan works' can or should be dealt with only as an aspect of 'fair use'. Rather, it needs to be dealt with separately and expressly. This is partly because the IPC is unaware of 'fair use' being successfully invoked to protect use of copyright material just because of its status as an orphan. Further, it appears to the IPC that a risk/benefit analysis may well deter many organisations which may wish to use some orphan work or works from incurring the risks and expense that could be involved in defending an infringement allegation on the basis of fair use

It would be important for the law to clearly prescribe that any monetary remedy was limited to a reasonable royalty only. This is because, as the case law currently stands, the remedies of damages or an account of profits would not be so limited.

6 Chapter 6: Patent system fundamentals

An issue that flows through the Draft Report is the understanding that patents are directed to encouraging the making of inventions. While that is important, it is only part of their purpose.

Going back to early days of the patent system, another major purpose was to encourage the innovator to invest the time and capital in developing an invention and putting it on the market. Many inventions fail in this development stage or on entering the market. An invention that sits in the laboratory is no use to the community so this is a critical part of the innovation process. As Thomas Edison famously said, 'genius is 1% inspiration, 99% perspiration'. For example in the pharmaceutical sector there is data showing that the drug development process usually extends for a decade and that the average pre-tax cost of bringing a new molecular entity to market is estimated, excluding post-marketing studies, to be \$802 million (in \$US at the value in 2000), with later studies estimating that the costs are even higher and that only 2 in 10 drugs that meet safety and efficacy requirements turn out to be profitable and generate an income stream that is greater than the costs sunk in research and development.³

Characterising patents as 'low value' misses the point that for every commercially successful invention there will be many inventions which were of apparently equal inventive merit at inception but fail during development or in the market. Whether an invention is commercially successful (and thereby contributes to economic growth or wellbeing) often has little to do with the abstract 'quality' of the invention. Difficulties may be encountered in practical application during development. The product may fail in the market, for many reasons but often because another innovator has made a still better invention. This is competition.

In this context the importance of incremental improvements which appear to be put in the category of 'low value' can be seen. These improvements may be absolutely critical to the commercial success of the underlying invention. To view them as low quality or low value ignores their importance.

For this reason, it is wrong to focus on research expenditure as the only touchstone by which the value of the patent system is to be evaluated. It is one (albeit important) criterion only.

The apparent conclusion at Box 6.3 that patents inhibit innovation, particularly follow on innovation, is not supported by the evidence cited. The evidence is, as noted by the Draft Report, limited.

A patent provides protection within which the patentee can engage in development, something that ordinarily involves further innovation. That is, patent protection is encouraging to (and is often essential to follow on innovation by) the IP owner or patentee.

Secondly, in many fields of technology, licensing or cross-licensing occurs (for example see below at 14.1).

Thirdly, innovators do not simply stop innovating because a particular path is blocked by a competitor's IP/patent. Faced with that situation, an innovator may seek a licence or direct their research to alternative solutions to the same problem, or to alternative problems. If they research the same problem they may do so with the intention of securing a cross-licensing position.

6.1 Draft recommendation 6.1

The Australian Government should amend ss. 7(2) and 7(3) of the Patents Act 1990 (Cth) such that an invention is taken to involve an inventive step if, having regard to the prior art base, it is not obvious to a person skilled in the relevant art.

³ See DiMasi, Hansen and Grabowski, 'The price of innovation: new estimates of drug development costs' (2003) 22 *Journal of Health Economics*, 151-185; Vernon, Golec and DiMasi, 'Drug development costs when financial risk is measured using the Fama-French three-factor model' (2010) 19(8) *Journal of Health Economics*, 1002-1005; and Winegarden, 'The Economics of Pharmaceutical Pricing' June 2014, Pacific Research Institute.

The Australian Government should state the following in the associated Explanatory Memorandum:

- *the intent of this change is to better target socially valuable inventions*
- *the test should be applied by asking whether a course of action required to arrive at the invention or solution to the problem would have been obvious for a person skilled in the art to try with a reasonable expectation of success.*

The Australian Government should explore opportunities to further raise the overall threshold for inventive step in collaboration with other countries in international forums.

The Draft Report proceeds on a misconception as to the current test for inventive step. The Draft Report summarises the current test, in Box 1, in the following terms, namely that the invention must:

involve an inventive step — the invention must not be obvious to a person skilled in the relevant art in light of ‘common general knowledge’ (knowledge of a worker in the field). A ‘scintilla of invention’ is enough for there to be an inventive step.

This description reflects the law before 1990 and does not accurately reflect section 7(3) of the *Patents Act 1990* (Cth) (**Patents Act**) which provides that inventive step is assessed against common general knowledge **plus the prior art base**. The correct formulation, namely that 'an invention should be taken to involve an inventive step if, having regard to the prior art base, it is not obvious to a person skilled in the relevant art' does not appear to be fundamentally different from the formulation the Draft Report proposes.

In Box 6.4 the Draft Report more accurately summarises the Australian legislation but does not accurately summarise the position in other places. For example in Europe there is, as in Australia, a distinction made between common general knowledge and the prior art base as a whole and there is a requirement that prior art which is not part of the common general knowledge be considered separately.

For example the European approach is summarised in the EPO Examiner's Guidelines in the following terms (citations omitted):

Obviousness

Thus the question to consider, in relation to any claim defining the invention, is whether before the filing or priority date valid for that claim, having regard to the art known at the time, it would have been obvious to the person skilled in the art to arrive at something falling within the terms of the claim. If so, the claim is not allowable for lack of inventive step. The term "obvious" means that which does not go beyond the normal progress of technology but merely follows plainly or logically from the prior art, i.e. something which does not involve the exercise of any skill or ability beyond that to be expected of the person skilled in the art. In considering inventive step, as distinct from novelty, it is fair to construe any published document in the light of knowledge up to and including the day before the filing or priority date valid for the claimed invention and to have regard to all the knowledge generally available to the person skilled in the art up to and including that day.

Problem-and-solution approach

In order to assess inventive step in an objective and predictable manner, the so-called "problem-and-solution approach" should be applied. Thus deviation from this approach should be exceptional.

In the problem-and-solution approach, there are three main stages:

- (i) *determining the "closest prior art",*

- (ii) establishing the "objective technical problem" to be solved, and
- (iii) considering whether or not the claimed invention, starting from the closest prior art and the objective technical problem, would have been obvious to the skilled person.

5.1 Determination of the closest prior art

The closest prior art is that which in one single reference discloses the combination of features which constitutes the most promising starting point for a development leading to the invention. In selecting the closest prior art, the first consideration is that it should be directed to a similar purpose or effect as the invention or at least belong to the same or a closely related technical field as the claimed invention. In practice, the closest prior art is generally that which corresponds to a similar use and requires the minimum of structural and functional modifications to arrive at the claimed invention.

In some cases there are several equally valid starting points for the assessment of inventive step, e.g. if the skilled person has a choice of several workable solutions, i.e. solutions starting from different documents, which might lead to the invention. If a patent is to be granted, it may be necessary to apply the problem-and-solution approach to each of these starting points in turn, i.e. in respect of all these workable solutions. In the event of refusal, however, it is sufficient to show, on the basis of one relevant piece of prior art in respect of at least one of these solutions, that the claimed subject-matter lacks an inventive step. In such a situation, there is no need to discuss which document is "closest" to the invention; the only relevant question is whether the document used is a feasible starting point for assessing inventive step. This is valid even if the problem identified in a problem-solution reasoning may be different from the one identified by the applicant/patentee.

The closest prior art must be assessed from the skilled person's point of view on the day before the filing or priority date valid for the claimed invention.

In identifying the closest prior art, account should be taken of what the applicant himself acknowledges in his description and claims to be known. Any such acknowledgement of known art should be regarded by the examiner as being correct, unless the applicant states he has made a mistake.

...

3. Person skilled in the art

The "person skilled in the art" should be presumed to be a skilled practitioner in the relevant field of technology, who is possessed of average knowledge and ability and is aware of what was common general knowledge in the art at the relevant date. He should also be presumed to have had access to everything in the "state of the art", in particular the documents cited in the search report, and to have had at his disposal the means and capacity for routine work and experimentation which are normal for the field of technology in question. If the problem prompts the person skilled in the art to seek its solution in another technical field, the specialist in that field is the person qualified to solve the problem. The skilled person is involved in constant development in his technical field. He may be expected to look for suggestions in neighbouring and general technical fields or even in remote technical fields, if prompted to do so. Assessment of whether the solution involves an inventive step must therefore be based on that specialist's knowledge and ability. There may be instances where it is more appropriate to think in terms of a group of persons, e.g. a research or production team, rather than a single person. It should be

borne in mind that the skilled person has the same level of skill for assessing inventive step and sufficient disclosure.

It is apparent that, contrary to the conclusion of the Draft Report, the approach in Europe is, as in Australia, to start with a single piece of prior art, which is to be assessed from the perspective of a person equipped with the common general knowledge. The European approach differs in detail (and as to attempts to emulate the detail see below), but the suggestion that substantial change is required to harmonise the Australian position with the European position appears to be based on a misapprehension as to extent of the difference. In the time available the IPC has not undertaken a comparative review of the position in all other major jurisdictions, but a proper review should be undertaken before making recommendations based on alleged differences.

The IPC understands that draft recommendations 6.1 and 6.3 are also premised on accepting the view that the current standard for inventive step is too low having regard to the manner in which the High Court of Australia formulated the test for obviousness in *Aktiebolaget Hassle v Alphapharm Pty Ltd* (2002) 212 CLR 411 (**AB Hassle**) and the subsequent application of the test by the Federal Court and IP Australia (Draft Report, p 178).

Subsequent to the decision in *AB Hassle*, the Australian Government undertook a comprehensive review of the patent system⁴ which led to the introduction of the Raising the Bar reforms in 2011.⁵ In describing the rationale for the reforms, the Government expressly recognised 'the need to raise Australia's patent standard for inventive step' and stated that the Raising the Bar reforms would realign Australia's patent law with global trends regarding standards for patentability and specifically that the amendments would strengthen the inventive step requirements and increase the quality of patents that are granted.⁶ It is noted that these objectives, in large part, align with those of the Draft Report.

This review involved an extensive and consultative process over a number of years and resulted in significant amendments to the *Patents Act* including broadening of the prior art base against which inventive step is assessed and removal of the limitation that common general knowledge be confined to that existing in Australia at the relevant date. The review process did not however result in the raising of the 'obviousness threshold'. Further, the review did not result in the reversal of the onus of proof in relation to inventive step (or any other ground of invalidity).

Significantly, the Raising the Bar reforms have to date only been the subject of a small number of IP Australia decisions⁷ and have received no judicial scrutiny. It is premature therefore to suggest that the standard of patentability is too low under the current patents regime.

In these circumstances, the IPC does not support draft recommendation 6.1. The IPC submits that the appropriate course is for a comprehensive assessment of the impact of the Raising the Bar reforms (against the Australian Government's stated objectives) to be undertaken once the reforms have been subjected to judicial scrutiny.

The IPC makes the following additional comments in relation to draft recommendation 6.1.

⁴ Australian Law Reform Commission, *Genes and Ingenuity: Gene Patenting and Human Health*, Report No 99 (2004); Advisory Council on Intellectual Property, *Patentable Subject Matter* (2010); Senate Community Affairs References Committee, Parliament of Australia, *Gene Patents* (2010) (**SGP Report**); and Australian Government Response to the SGP Report (2011).

⁵ Implemented by the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth).

⁶ Australian Government Response to the SGP Report (2011) p 7: Response to Recommendation 6 of the SGP Report.

⁷ *CSR Building Products Limited v United States Gypsum Company* [2015] APO 72; and *J.M. van der Hoeven BV v Houweling Nurseries Oxnard, Inc* [2015] APO 4.

The IPC notes that the Draft Report's proposed inventive step test is designed to mirror that which is applied in the EPO. In this regard, the IPC cautions of the risks of seeking to replicate the form of a foreign test for inventive step. Specifically, regard must be had to the fact that the test for inventive step as applied in the EPO is a product of the interaction of a number of provisions of the EPO patents regime designed to provide a comprehensive threshold for valid patents. 'Cherry picking' a single provision out of that entire framework and its insertion into a different legislative framework in the Australian *Patents Act* may not in fact ensure that Australia achieves harmony with the EPO criteria for valid patents. In that context, the IPC notes the misapprehension as to the extent of difference between the tests outlined above.

The IPC also makes the following comments in relation to the characterisation of the High Court test in *AB Hassle* (and the alleged 'difficulties' with its application) adopted by the Draft Report:

- The formulation of the test for inventive step adopted by the High Court in *AB Hassle* is as follows:⁸

... [w]ould the notional research group at the relevant date, in all the circumstances ... directly be led as a matter of course to try the [invention as claimed] in the expectation that it might well produce a useful [result].

Subsequently, the 'expectation' has been held to be a 'reasonable' expectation.⁹

- There is no jurisprudential support for the proposition put forward by Lawson (referred to on page 179 of the Draft Report), seemingly endorsed by the Draft Report, that 'proving that an inventor would be directly led as a matter of course to the invention in the expectation of success is likely to be established only in the circumstance where the invention has already been made or practiced' (emphasis added).

Indeed, in the leading case of *AstraZeneca*, in which the patent in suit related to the administration of a particular dose of dosage range (5-10 milligrams daily) of rosuvastatin and its pharmaceutically acceptable salts, the High Court upheld the findings of the Full Court, and the primary judge, that the invention disclosed in the patent did not involve an inventive step and so was obvious within the meaning of section 7(2) of the *Patents Act* despite the fact that the administration of rosuvastatin at 5-10 milligrams daily had not previously been disclosed, a fact accepted by the High Court.¹⁰

Other cases to the same effect include *Ajinomoto Co Inc v NutraSweet Australia Pty Ltd* (2008) 166 FCR 530, where combining a newly published artificial sweetener with commonly known sweeteners was found to lack inventive step although the particular combinations had never been disclosed, and *Garford Pty Ltd v DYWIDAG-Systems International Pty Ltd* [2015] FCAFC 6,¹¹ where there was no inventive step in claims to

⁸ *AB Hassle* at 433. This was endorsed by the High Court in *AstraZeneca AB v Apotex Pty Ltd* (2015) 323 ALR 605 (*AstraZeneca*) at [15], [40].

⁹ *Alphapharm Pty Ltd v H Lundbeck A/S* (2008) 76 IPR 618 at [180]. See also *Sigma Pharmaceuticals (Australia) Pty Ltd v Wyeth* (2010) 88 IPR 459 at [252]; *Danisco A/S v Novozymes A/S (No 2)* (2011) 91 IPR 209 at [326]; and *Eli Lilly & Co Ltd v Apotex Pty Ltd* (2013) 100 IPR 451 at [459]. This was recently endorsed by the High Court in *AstraZeneca* at [43].

¹⁰ *AstraZeneca* at [93]-[94].

¹¹ Appeal from *DSI Australia (Holdings) Pty Ltd v Garford Pty Ltd* [2013] FCA 132; (2013) 100 IPR 19.

aspects of a machine to manufacture a known form of cable, although the claimed features of the machine itself had never been disclosed.¹²

- There is also no jurisprudential support for the proposition put forward by Lawson (referred to on page 179 of the Draft Report), again, seemingly endorsed by the Draft Report, that 'any doubts along the way to the claimed invention (that is, any possibility of an unexpected result) favour a non-obvious finding – a significantly difficult task facing any challenger'.

To the contrary, Australian Courts have consistently recognised that an alleged invention may lack an inventive step despite its development entailing the degree of trial and error which would form part of the normal industrial function of a person skilled in the art.¹³

6.2 Draft recommendation 6.2

*The Australian Government should incorporate an objects clause into the Patents Act 1990 (Cth) (**Patents Act**). The objects clause should describe the purposes of the legislation as being to enhance the wellbeing of Australians by providing patent protection to socially valuable innovations that would not have otherwise occurred and by promoting the dissemination of technology. In doing so, the patent system should balance the interests of patent applicants and patent owners, the users of technology — including follow-on innovators and researchers — and Australian society as a whole.*

The Australian Government should amend the Patents Act such that, when making a decision in relation to a patent application or an existing patent, the Commissioner of Patents and the Courts must have regard to the objects of the Patents Act.

The IPC does not support draft recommendation 6.2. As previously submitted,¹⁴ the IPC considers that the insertion of an objects clause into the *Patents Act* is neither necessary nor helpful and is very likely to create scope for confusion and dispute. It will undoubtedly significantly increase the number of issues to be considered in assessing the validity of patents in Australia.

As a guiding principle, the IPC considers that the operative provisions of any legislative instrument should be able to be determined on a proper construction of those provisions. It should therefore not be necessary to rely on an objects clause in the construction of a legislative instrument.

Where any particular provision is considered to be unclear or ambiguous, or otherwise in need of amendment, the IPC considers that this ought to be addressed by a targeted, tailored amendment to that provision. For example, to the extent that there is a need to clarify the 'context for compulsory licensing' as suggested by the Draft Report, that can be addressed by way of amendment to the 'reasonable requirements of the public test' set out in section 133 of the *Patents Act*.

¹² See also various Patent Office decisions including *Innovia Security Pty Ltd v De La Rue International Ltd* [2015] APO 77; *Innovia Security Pty Ltd v OVD Kinegram AG* [2015] APO 26; *Fonterra Co-operative Group Limited and Kraft Foods Global Brands LLC v Leprino Foods Company* [2015] APO 22; *Innovia Security Pty Ltd v OVD Kinegram AG* [2015] APO 13; *Rio Tinto Alcan International Ltd v Norsk Hydro ASA* [2015] APO 40; *Woodside Energy Limited v Exxon-Mobil Upstream Research Company* [2014] APO 53; *Innovia Security Pty Ltd v Visual Physics, LLC* [2015] APO 82; *Cronk v Commissioner of Patents* [2014] FCA 37 (an appeal from a Patent Office decision); and *Alethia Biotherapeutics Inc. v Daiichi Sankyo Company, Limited* [2015] APO 59.

¹³ *Coopers Animal Health Australia Ltd v Western Stock Distributors Pty Ltd* (1986) 67 ALR 390 at 414.

¹⁴ Law Council of Australia's Submissions dated 1 October 2013 in response to IP Australia's "Patentable Subject Matter – Consultation on proposed objects clause and an exclusion from patentability July 2013" p 1.

The proposed text of the clause raises a number of concepts that are foreign to patent law, including calling for the making of value-judgments. It also requires an inquiry into whether any 'social value' has only been realised as a result of the provision of 'patent protection' (referred to as 'additionality' by the Draft Report). Further uncertainty arises in relation to what is meant by the requirement that the legislation is to 'promote the dissemination of technology'.

Uncertainty in the interpretation of the objects clause will arise in light of the fact that notions such as 'socially valuable' are prone to different interpretations by different community sectors and may depend on the manner in which the invention is exploited and are very likely to change during the term of a patent. The question of whether the social value of an invention would not 'have otherwise occurred' will likely open a Pandora's box of matters to be considered.

A significant difficulty that would arise from the introduction of the proposed objects clause is the ability of the Commissioner of Patents to consider the clause at the time of deciding whether or not to grant a patent application. At this early stage in the life of an invention, the social value of the invention may not have been fully anticipated or realised (or able to be definitively proved), nor any promotion of the 'dissemination of technology' able to be observed.

Further, it is not apparent how regard to the concepts embedded in the proposed objects clause by IP Australia and the Courts might 'guide' decision-making in relation to questions regarding the requirements for a valid patent, for example, in relation to novelty or whether a claim is fairly based – each of which are aspects of patentability the subject of well-developed jurisprudence. These technical requirements for a valid patent do not appear to lend themselves to being interpreted by reference to, for example, the 'social value' of an invention.

Further, there is a very real risk that the introduction of the proposed objects clause would result in patent examiners and judges being presented with a raft of detailed and complex evidence. This evidence may, for example, go to the 'social value' of an alleged invention involving questions of economics and accounting, requiring industry-wide evidence including of counter-factual scenarios. Evidence may also be presented as to the role of patent protection in the provenance of an invention.

To require the Commissioner of Patents to consider the objects clause in every decision to grant or reject a patent application (and on re-examination of a granted patent) would undoubtedly lead to delays and costs in the patent application procedure and provide significant scope for an increase in appeals. The Court processes will also be impacted.

The introduction of an objects clause will add to the time and cost of obtaining, enforcing and challenging a patent at all levels, thereby decreasing the efficiency of the patent system. This will likely put the cost of patent litigation well beyond the reach of many small to medium enterprises in Australia.

Importantly, as the Draft Report notes, in 2010, the Advisory Council on Intellectual Property (**ACIP**) recommended the inclusion of an objects clause in the *Patents Act* solely to assist with the test for patentable subject matter.¹⁵ Since that time, and subsequent to *Grant v Commissioner of Patents* (2006) 154 FCR 62 referred to by the Draft Report, the High Court has handed down its decision in *D'Arcy v Myriad Genetics* (2015) 325 ALR 100 (**D'Arcy**), in which it found that isolated nucleic acid sequences are not patentable subject matter under the *Patents Act*. In doing so, the High Court held that when a new class of claim involves a significant new application or extension of the concept of 'manner of manufacture', factors connected directly or indirectly to the purpose of the *Patents Act* may assume importance. These factors were said to include:¹⁶

¹⁵ Advisory Council on Intellectual Property, *Patentable Subject Matter* (2010) Recommendations 1 & 2.

¹⁶ *D'Arcy* at [28].

- whether the invention as claimed is for a product made, or a process producing an outcome as a result of human action;
- whether the invention as claimed has economic utility;
- whether patentability would be consistent with the purposes of the *Patents Act* and, in particular:
 - whether the invention as claimed, if patentable under section 18(1)(a), could give rise to a large new field of monopoly protection with potentially negative effects on innovation;
 - whether the invention as claimed, if patentable under section 18(1)(a), could, because of the content of the claims, have a chilling effect on activities beyond those formally the subject of the exclusive rights granted to the patentee;
 - whether to accord patentability to the invention as claimed would involve the Court in assessing important and conflicting public and private interests and purposes;
- whether to accord patentability to the invention as claimed would enhance or detract from the coherence of the law relating to inherent patentability;
- relevantly to Australia's place in the international community of nations:
 - Australia's obligations under international law; and
 - the patent laws of other countries;
- whether to accord patentability to the class of invention as claimed would involve law-making of a kind which should be done by the legislature.

The IPC considers that this significant change in the approach of the Australian Courts (now adopted by IP Australia) to the assessment of the threshold question of what constitutes patentable subject matter (which mandates an assessment of 'policy' considerations for new classes of inventions) negates the need for an objects clause.

The IPC notes that the proposed objects clause appears to be contrary to Australia's international obligations, in so far as it provides that the object of the legislation is 'to enhance the wellbeing of Australians' and 'balance the interests of patent applicants and patent owners, the users of technology ... and Australian society as a whole'.

Article 3.1 of TRIPS provides:

Each member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property, subject to the exceptions already provided in, respectively, the Paris Convention (1967), the Berne Convention (1971), the Rome Convention or the Treaty on Intellectual Property in Respect of Integrated Circuits.

Similarly, Article 17.1(6) of AUSFTA provides:

In respect of all categories of intellectual property covered in this Chapter, each Party shall accord to nationals of the other Party treatment no less favourable than it accords to its own nationals with regard to the protection and enjoyment of such intellectual property rights and any benefits derived from such rights.

If, as appears to be the case, the proposed objects clause requires Australian Courts to give Australian interests priority over the interests of foreign patent-holders, this would clearly be contrary to both TRIPS and AUSFTA. As the IPC has previously submitted in its response to IP

Australia's 'Patentable Subject Matter – Consultation on an objects clause and an exclusion from patentability July 2013', Australians should be entitled to expect that local interests will not receive priority when they seek to obtain or enforce patents in other countries, and as such, Australia should afford the same treatment to nationals of other countries here.

6.3 Information request 6.2

The Commission is seeking information from participants on the costs and benefits of an exemption from infringement for experimental activities that use a patented invention. Are there any examples in Australia where the efforts of researchers have been hindered by the lack of such an exemption?

An express exemption for acts done for experimental purposes, which was supported by the IPC, was introduced in 2013 – see s119C of the *Patents Act*. The IPC does not otherwise have any information responsive to the request.

6.4 Draft recommendation 6.3

The Australian Government, with input from IP Australia, should explore the costs and benefits of using higher and more pronounced renewal fees later in the life of a standard patent, and making greater use of claim fees to limit the breadth of patent protection and to reduce strategic use of patents.

The Australian Government should seek international cooperation on making greater use of patent fees to help ensure that patent holders are not overcompensated and to limit the costs of patent protection on the community.

The IPC understands that the Commission considers that the main objective in setting patent fees should be to limit the costs that patent protection imposes on the community arising from overcompensation in the strength of patent rights that confer market power and the strategic use of patents.

The IPC accepts that the patent system should operate on a 'user-pays' basis and therefore that fees should accurately reflect the cost to the community of providing patent protection to individual users of the system. However, the IPC does not agree that patent fees are an appropriate mechanism for controlling the level of protection afforded by the patent system.

Any significant increase in fees may have unintended and detrimental consequences, such as acting as a disincentive to filing and maintenance of patent applications and patents for small and medium sized enterprises (a fact expressly acknowledged by the Draft Report at page 205).

The IPC also submits that in making comparisons to patent fee regimes in other jurisdictions, regard must be had to the size of the economy in that jurisdiction (and hence scope for return on investment).

7 Chapter 7: Innovation patents

7.1 Draft recommendation 7.1

The Australian Government should abolish the innovation patent system.

The IPC has previously expressed the view that it does not favour the wholesale abolition of the innovation patent system.¹⁷

¹⁷ See, for instance, the IPC's submission on ACIP's Options Paper on the Review of the Innovation Patent System dated 4 October 2013.

As the Draft Report identifies, it is clear, however, that there are some failings with the current innovation patent system which have resulted in the system being less effective than it might otherwise have been. The IPC considers that, with a modest number of changes to the system, the way in which innovation patents are granted and enforced could be made much more effective and could bring the system back into line as a legitimate and useful second-tier patent system.

In particular, many of the problems identified in the Draft Report of low value innovation patents could be addressed by:

- compelling **substantive examination** or introducing a requirement that innovation patents lapse after three years unless certified; and
- raising the **threshold for innovativeness**.

On this latter point, the IPC does not favour an innovativeness standard that is the same as that for standard patents. As the Draft Report notes, a return to such a standard would be tantamount to the reintroduction of the petty patent system that the innovation patent system was designed to replace – a policy ‘Groundhog Day’.

Instead, the IPC submits that the innovative step tests suggested in the submissions referred to at p229 of the Draft Report would be workable. The IPC notes that this could be considered as striking an appropriate balance between the patentee’s contribution to the art and the more limited period of innovation patent monopoly granted in consideration of that contribution.

The difficulties associated with undesirable strategic use of innovation patents can be addressed by:

- **limiting innovation patent divisional applications**; and
- **modifying remedies** available for infringement.

The IPC is aware that many innovation patents are granted as divisional applications from a pending standard patent application. At present there is no limitation on the number of innovation patent divisional applications which can be made, based upon the pending standard parent application (although there is a time limit within which divisional applications must be made). The ability to file numerous applications for innovation patent divisionals is potentially open to abuse, enabling innovation patent owners to divide out innovation patents from pending standard patent applications so as to target alleged infringing activities. The IPC favours limiting the circumstances in which divisional innovation patents may be filed.

This could be achieved, for example, either by limiting the number of such divisionals that are permissible or only allowing divisional applications up until the date of grant of a first divisional innovation patent.

In relation to remedies available for infringement of innovation patents, the owner of an innovation patent is able to claim damages for infringement dating back to the effective filing date of the innovation patent. If the patent results from a divisional application (as many do) this extends to the initial period both before and after publication during which the parent application was pending and prior to the filing of the innovation patent application. The IPC endorses the suggestion made at p230 of the Draft Report to limit the availability of damages or an account of profits to infringements of an innovation patent occurring after the official publication of the claims that have been infringed.

8 Chapter 8: Business methods and software patents

8.1 Draft recommendation 8.1

The Australian Government should amend s. 18 of the Patents Act 1990 (Cth) to explicitly exclude business methods and software from being patentable subject matter.

As previously submitted,¹⁸ the IPC is generally opposed to exclusions of categories of patentable subject matter in the *Patents Act*.

Figures 8.3 and 8.4 in the Draft Report show that over the last two years the number of applications for business method and software patents (**BM&S**) have declined.

The IPC notes that the view adopted by the Federal Court in *Research Affiliates LLC v The Commissioner of Patents* (2014) FCAFC 150 is an approach consistent with that taken in the United States, Europe and the United Kingdom thus leading to consistency with a number of Australia's major trading partners.

Although reference is made in the Draft Report to the cost of the development of the principles associated with the patentability of BM&S, that cost is associated with all areas of case based law. It does not, in the view of the IPC, constitute a sound basis upon which protection for BM&S (or any other type of patentable subject matter) should be removed.

The IPC does not agree that the evidence demonstrates that alternate protection of other forms of intellectual property rights are relevant or sufficient to justify an exclusion of the patentability of BM&S. Indeed, the Draft Report does not appear to acknowledge the significant differences between the rights granted by a patent and the protections granted by other forms of intellectual property. Nor does the Draft Report take fully into account the much more limited temporal protection granted by the *Patents Act* than that protection offered, for example, by the *Copyright Act*.

In contending that the *Patents Act* rewards a low level of inventiveness, the Draft Report refers to materials published both before the enactment of the *Raising the Bar (RTB)* amendments to the *Patents Act* and before the most recent Federal Court decisions which, the Draft Report properly acknowledges, significantly narrow the scope of patentability of BM&S.

Of course, the effect of the RTB amendments to the *Patents Act* is not yet clear. Parliament enacted that package of amendments for the specific purpose of raising the threshold requirements for patentability in Australia. The IPC respectively suggests that it would be appropriate to see the approach adopted by the Court to the RTB amendments before peremptorily regarding them as inadequate and criticising them for being ineffective before cases have come before the Court to establish the validity of the criticisms.

The combination of the adoption by the Federal Court of an approach to BM&S patentability comparable to that of the United States, the UK and Europe and the effect of the RTB amendments to the *Patents Act* do not support the propositions made over a decade earlier, to which the Draft Report refers suggesting that the level of patentability is too low.

It follows that the conclusion in the Draft Report that BM&S are constraining innovation is premised upon a misapprehension that patents cause a 'chilling effect' on innovation (see paragraph 6 above) and is materially influenced by the earlier conclusions that the threshold for patentability of BM&S is too low and the speculation, implicitly, that the Parliament's attempts to raise the threshold of patentability by the RTB amendments have been wholly ineffective.

¹⁸ Law Council of Australia's Submissions dated 1 October 2013 in response to IP Australia's "Patentable Subject Matter – Consultation on proposed objects clause and an exclusion from patentability July 2013" p 1.

It may be accepted that development in BM&S, as in other areas of scientific and technological endeavour, are incremental but that does not mean that it is appropriate to abolish patent protection.

The IPC accepts that sound policy requires that the permissible width of the claims of patents for BM&S should be commensurate with the invention disclosed. That is an objective which the legislature sought to achieve through raising the bar. There is no evidence that it has failed nor that the approach adopted in the United States, UK and Europe has also failed. The decision in *Research Affiliates*, was recently handed down by the Federal Court in 2014. Again, the IPC believes that it is too early to make a decision as radical as that proposed by the Draft Report.

The Draft Report notes that other countries have wound back BM&S patentability but does not identify Australia's major trading partners as having taken the radical step of excluding BM&S entirely from patentability as the Draft Report recommends.

The criticism that the effect of the cases in Australia has not been settled demonstrates that to take the step proposed by the Draft Report, is not yet justified and that real caution should be exercised before Australia takes a step which would place it in a position inconsistent with that of many of its major trading partners and before the true effect of the developments of the law in 2013 and 2014 become clear.

Indeed since the publication of the Draft Report the case of *Commissioner of Patents v RPL Central Pty Ltd* (2015) FCAFC 177 (**RPL Central**) was the subject of an application for special leave to appeal to the High Court which was rejected. In that case, the Full Court held that the scheme or idea disclosed in the patent in issue was unpatentable. With Special Leave having been refused, this authoritative appellate decision demonstrates that the existing law is indeed effective in applying stringent requirements for BM&S to be patentable.

The IPC suggests that the Draft Report has not identified a sound basis for seeking to exclude BM&S from patentability.

8.2 Information request 8.1

What approaches or tests could be used to differentiate between inventions where the contribution of embedded software is trivial and inventions where the contribution of embedded software is genuinely deserving of patent protection? Should such tests be implemented in law or patent examination practices?

This issue has been dealt with in the Patent Examination Manual at 2.9.2.7 'Computer Implemented Inventions - Schemes and Business Methods'. The approach was approved in *RPL Central*.

9 Chapter 9: Pharmaceutical patents

9.1 Draft recommendation 9.1

The Australian Government should reform extensions of patent term for pharmaceuticals such that they are calculated based only on the time taken for regulatory approval by the Therapeutic Goods Administration over and above one year.

The IPC does not support replacing the current method of calculating extensions of term for pharmaceuticals contained in section 77 of the *Patents Act* with the alternative proposal set out in Draft Recommendation 9.1.

The Draft Report proceeds on the basis that the issue being addressed by the extension of term provision is the time taken for a regulator to approve a marketing application after it is submitted. While that time is relevant, the real issue is the time taken to gather the information required by the regulator to support an approval. With a typical pharmaceutical product, that information

includes preclinical data such data on short and long term chemical stability, toxicology and carcinogenicity as well as pharmacokinetic and pharmacodynamics data in animals. Based on those data, the product then needs to be tested in humans in clinical trials including Phase I, II and III trials. It is the many years usually involved with obtaining this information, rather than the time it takes a regulator to look at the information, that is the key reason for the extension of term provisions.

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 (see also Article 18.48 of the Trans-Pacific Partnership (TPP)).

The Draft Report does not in the IPC's view advance a compelling case justifying change for the following reasons.

- In the IPC's opinion, the reasons supporting the current patent term extension regime still outweigh the so-called 'deficits'¹⁹ referred to in the Draft Report. 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 product²⁰. Importantly, the patent term extension regime currently in place can be seen as a *quid pro quo* and an appropriate and necessary recognition of 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 (including compiling necessary clinical trial, safety and manufacturing data) and obtain regulatory approval.
- The Draft Report states that despite these deficits even if industry is able to make a case that extensions of term do in Australia result in pharmaceuticals coming to market, there is still a strong argument for the case for better targeting of extensions of term. The Draft Report's proposal is that extensions should only be granted where there has been unreasonable regulatory approval delay (greater than one year) due only to the actions of the regulator. This proposed system ignores the fact that there are genuine sources of considerable delays for innovator companies. As the Draft Report acknowledges, it is common for pharmaceutical companies to only seek regulatory approval in Australia after approval has been granted in larger markets. This is on the basis that sponsors can rely on overseas approvals in support of applications for marketing approval from the TGA and to make the process more streamlined. There is also the prospect that the TGA will require additional studies or information to be provided which may take time during the marketing approval process in Australia. In the IPC's view, these are delays that should legitimately be taken into account in assessing any patent term extension.
- The discussion of parity appears to assume that the product life cycle for a pharmaceutical is not limited by the introduction of newer, better products (or price decreases for older products) in the same way as other categories of products. Like any other product, a pharmaceutical product may be replaced in the market for reasons of cost or because another innovator has made a still better invention.
- The comparisons included regarding the outcomes of EoTs included in Figure 9.3 and the surrounding paragraphs consider the effective market life in isolation from the other

¹⁹ The deficits identified in the Draft Report are that (i) it is not clear that standard patent term is insufficient; (ii) parity is not a convincing rationale; (iii) aims to attract investment have not been realised; (iv) the costs of extensions of term are significant; and (v) extensions of term are unlikely to alter firm behaviour.

²⁰ Many pharmaceutical products the subject of a patent term extension do not receive 15 years of effective protection because of the existing 5 year cap on such extensions.

regulatory schemes that impact on that life - for example the US schemes associated with market exclusivity, and deemed infringement in the ANDA (or 'Orange Book') scheme. Comparing the period of EoT in isolation from the whole scheme in another jurisdiction is apt to mislead.

- It is also counterintuitive to propose that the only reason that innovator companies delay applying for extensions of term is to ensure that they obtain at least part of the five year extension available. This ignores the fact that any delay in applying for TGA approval itself reduces the effective patent term. It should also be noted that the cost to the PBS during the 'delay' period, when of course the product the subject of that patent is not on the market, is nil.
- The Draft Report provides as additional benefits that tying extensions to the delay by the TGA will increase the focus on the regulator's efficiency (as publication of the grant of extensions of term will draw attention to instances of undue delay) and align incentives within government as inadequate resourcing of the TGA could lead to an increase in extensions of term and thereby costs through the PBS. The IPC's view is that the extension of term provisions should not be used as a means to measure the efficiency or resource levels of the TGA.

The section 77 formula is clear and has been successfully applied since the 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 by a system dependent only upon the regulator's delays.

The Draft Report also raises the threshold question of determining to which products the extension of term regime should apply. While the IPC does not support a restriction to only new APIs as proposed by the Draft Report, the IPC is supportive of a review of the application of section 70 of the *Patents Act* in light of the case law.

9.2 Draft recommendation 9.2

Regardless of the method of calculating their duration (draft recommendation 9.1), extensions of term in Australia should only be granted through a tailored system which explicitly allows for manufacture for export in the extension period.

Draft recommendation 9.2 is concerned with the distinct issue whether generic manufacturers should be allowed freely to manufacture pharmaceutical products covered by Australian patents where this is done for export during any extension of term. 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).

The IPC doubts whether this option is open to Australia to adopt at least for the following two reasons:

- First, a manufacture for export exemption during an extended term would not be consistent with Article 30 of TRIPS. The Draft Report refers to this legal uncertainty. Accordingly, only a *sui generis* regime would be consistent with TRIPS.
- Secondly, although the Draft Report refers to possible *sui generis* protection and refers to a footnote in the TPP in support of the use of a *sui generis* regime, a similar footnote does not appear in the AUSFTA (see Article 17.9.8(b)). This would seem to commit Australia against the use of a *sui generis* regime. Indeed the side letter on Chapter 17 of

the AUSFTA clarifies that manufacture for export during an extended patent term may only be carried out to meet marketing approval requirements.

Accordingly, it is likely that, in order to permit manufacture for export during the extended term, renegotiation of TRIPS or the AUSFTA, or both, would be required.

9.3 Draft recommendation 9.3

There should be no extension of the period of data protection, including that applicable to biologics.

Further, in the context of international negotiations, the Australian Government should work with other nations towards a system of eventual publication of clinical trial data in exchange for statutory data protection.

The IPC notes that the expressed rationale for a data protection regime is to provide an incentive to companies which generate safety and efficacy data in order to secure regulatory approval in the pharmaceutical and agricultural sectors as distinct from the patent system which protects invention.

The patents system provides a series of checks and balances and users of that system may be required to justify the rights granted to them by a patent.²¹

The IPC notes that Australia's pharmaceutical data protection regime creates a potential barrier to new market entrants which does not provide the checks and balances which are inherent in the patent system.

There is no procedural mechanism currently provided as part of the existing pharmaceutical data protection regime by which a party adversely affected by a claim that information in the possession of the TGA is 'protected information' can challenge that claim in the event that the Secretary of the Department of Health takes the view that the information is 'protected information'. There is considerable doubt whether any remedy is available to such an adversely affected party in those circumstances.

By contrast, if the Secretary of the Department of Health forms the view that information in the possession of the TGA is not protected information and proposes to use that information to evaluate a pending application for the registration of the pharmaceutical product on the ARTG the party which first submitted the information to the TGA may seek an injunction²² to prevent that use²³.

The IPC submits that this introduces an imbalance in the data protection regime which may operate to unfairly limit or delay the introduction of new pharmaceutical products into the Australian marketplace.

The IPC therefore submits that a judicial mechanism or procedure ought to be expressly enacted whereby a claim that information is 'protected information', for the purposes of section 25A of the *Therapeutic Goods Act 1989* (Cth), can be challenged.

The IPC supports the recommendation that the Australian Government should work with other nations towards implementing an international system that sees clinical trial data published as a quid pro quo for data protection. This is the position to which Europe is moving towards, and some pharmaceutical companies have voluntarily chosen to publish clinical trial data. The IPC

²¹ An applicant for a patent must satisfy the patentability requirements and a granted patent is subject to potential challenge

²² And potentially other administrative law remedies

²³ This was the situation which pertained, for example, in *Alphapharm Pty Ltd v H. Lundbeck A/S* (2008) 76 IPR 618

notes, however, that overseas data protection regimes generally apply to data whether or not the data is confidential. Australia's data protection regime currently requires information to be confidential in order to qualify as 'protected information'.

The value in publishing clinical trial data arises where disclosure occurs early on in order to encourage and inform further development of pharmaceutical and biotechnology products. In the context of Australia's existing data protection regime early disclosure of clinical trial results would take the information outside the definition of 'protected information'.

Implementation of a meaningful clinical trial result disclosure obligation would therefore require a modification to the confidentiality requirement in respect of 'protected information' currently provided for in section 25A of the *Therapeutic Goods Act 1989* (Cth).

9.4 Draft recommendation 9.4

The Australian Government should introduce a transparent reporting and monitoring system to detect any pay-for-delay settlements between originator and generic pharmaceutical companies. This system should be administered by the Australian Competition and Consumer Commission.

The monitoring should operate for a period of five years. Following this period, the Australian Government should institute a review of the regulation of pay-for-delay agreements (and other potentially anticompetitive arrangements specific to the pharmaceutical sector).

Patent litigation, and pharmaceutical patent litigation in particular, can be an extremely expensive process for the parties involved. Parties involved in such litigation may prefer to discontinue the dispute or the litigation because it is too costly, time consuming and/or uncertain. Settlements of this kind are generally accepted as a legitimate, and indeed desirable, way of ending disputes. Obviously, such settlements can also save the Court, Patent Office and Tribunal time and effort and, in that way, provide a benefit to society at large.

So called pay-for-delay settlements involve brand name pharmaceutical companies providing compensation to a generic pharmaceutical company. The consideration paid to the generic company may create an anti-competitive environment if the compensation paid results in the generic company delaying its entry into the market.

Because the brand name company would typically take more profit by keeping the generic competitor from the market than both companies would receive in total by competing in that market they may, in some markets, have an incentive to give the market to the brand name company and split the profits from the prevention of competition. In effect, the payment obtained by the generic company arises from the sharing of the brand name firm's supra-competitive profits.

The important public benefit and social outcome arising as a result of the settlement of complex and expensive pharmaceutical patent disputes should not, in the view of the IPC, be underestimated. The IPC is concerned that the introduction of a formalised monitoring procedure, requiring pharmaceutical companies to disclose to the ACCC patent settlement agreements they have entered into, may have a substantial chilling effect on the motivation of parties involved in pharmaceutical patent disputes to resolve such disputes prior to their adjudication by a Court, tribunal or other administrative body.

The IPC acknowledges that pay-for-delay settlements of the kind referred to above, were they to occur in Australia, would be subject to the operation of the *Competition and Consumer Act 2010*

(Cth)²⁴. However, the Commission acknowledges in its Draft Report that it is unaware of any proven pay-for-delay cases in Australia.

The Draft Report refers to the *Australian Competition and Consumer Commission v Pfizer Australia Pty Ltd* (2015) 323 ALR 429 case (**ACCC v Pfizer**). *ACCC v Pfizer* was not related to pay for delay. To describe the case as reflecting '*concerning, but unproven, anticompetitive behaviour*' where there was a failure to prove a contravention is inappropriate.

The IPC notes that, in the US, there is a greater incentive for brand name and generic pharmaceutical companies to enter into pay-for-delay settlements. That incentive arises because of the six month exclusivity period available to the generic which is the first to challenge the brand name company's patent with respect to a particular pharmaceutical product. Brand companies often adopt the tactic of launching their own generic product during the six month period thereby depriving the generic company of its exclusivity. In those circumstances there is an incentive to settle litigation on the basis of delayed generic entry in exchange for the generic company keeping its six month exclusivity.

There is, of course, no similar exclusivity period in Australia meaning that there is a much less incentive to enter into pay-for-delay arrangements.

The Draft Report goes on to state that Australia does not have any measures in place to detect pay-for-delay behaviour.

The IPC notes that the ACCC does, in fact, have broad powers under section 155 of the *Competition and Consumer Act 2010* (Cth) to require the production of information, documents or evidence where it has reason to believe that a person is capable of furnishing information relating to a matter that may constitute a contravention of that Act. The IPC submits that there is no reason why these powers ought not be sufficient to enable the ACCC to identify and take action in relation to potentially anti-competitive agreements entered into within the pharmaceutical sector.

The IPC notes that there is no empirical evidence relied upon in the Draft Report to support the proposition that pay-for-delay patent settlements are occurring with any frequency in Australia which might justify any special or particular enforcement procedures to be deployed by the competition regulator in relation to them.

The Draft Report refers to reporting requirements in the United States²⁵ and in Europe²⁶ however, in both of those regions, there are well developed guidelines in place which are applied by the competition authorities to the assessment of patent settlement agreements.

The IPC considers that, if a mandatory reporting and monitoring system were to be introduced relating to patent settlement agreements, there should be accompanying guidelines introduced clearly setting out how such agreements are proposed to be considered by the ACCC. Without such guidance even greater uncertainty would likely arise in the pharmaceutical industry which may, potentially, lead to fewer patent dispute settlements occurring.

²⁴ Such agreements may well, for example, be in contravention of section 45 of the Act assuming they are not otherwise saved by subsection 51(3) of the *Competition and Consumer Act 2010* (Cth).

²⁵ Pursuant to section 1112 of subtitle B of Title XI of *US Medicare Prescription Drug, Improvement and Modernisation Act 2003* which requires brand name drug manufacturers and generic drug applicants to file certain agreements with the Federal Trade Commission and the US Assistant Attorney General within 10 business days of execution of such an agreement.

²⁶ Where there have been six rounds of monitoring patent settlements between originator and generic companies but where the provision of information relating to patent dispute settlements has essentially been voluntary.

In support of draft recommendation 9.4 reference is made²⁷ to a White Paper published by the Canadian Bureau of Competition in 2014 which argued that:

Canada's regulatory framework needs to be strengthened to include a settlement notification system. Without such a system, Canada risks losing the full benefits that generic entry and competition can bring to consumers...

The IPC notes, however, that on 31 March 2016, the Canadian Bureau of Competition published its Intellectual Property Enforcement Guidelines which, in part, address the issue of patent settlement agreements and, in particular, pay-for-delay agreements.²⁸ It is instructive to note that there is no suggestion in those Guidelines that a formal notification regime for patent settlement agreements be introduced.

It was obviously considered ultimately unnecessary to implement such a notification regime in Canada and the IPC sees no reason to implement a similar regime in Australia and certainly not unless and until a clear set of accompanying guidelines is also introduced clarifying how the ACCC would approach its consideration of any patent settlement agreements that were required to be disclosed as a consequence of the implementation of such a regime.

If draft recommendation 9.4 is to be included as a final recommendation then the IPC would strongly support the recommendation that there be a subsequent five year (or possibly sooner) review of the regulation of pay-for-delay agreements (and other potential anti-competitive arrangements specific to the pharmaceutical sector) which should include a review of the consequences (intended and unintended, including the cost of compliance) that the impact of such a regime has had in a sector which is already heavily burdened by regulatory compliance costs.

9.5 Draft recommendation 9.5

The Australian Government should reform s. 76A of the Patents Act 1990 (Cth) to improve data collection requirements. Thereafter, extensions of term should not be granted until data is received in a satisfactory form.

After five years of data has been collected, it should be used as part of a review to consider the ongoing costs and benefits of maintaining the extension of term system.

The Draft Report recommends that section 76A of the *Patents Act* be reformed to improve data collection requirements.

The IPC agrees that the current system does not appear to be working and the system has not provided any meaningful data to the Department of Health. The IPC agrees that there is value in the collection of meaningful data to evaluate if the 'stated objective' is being achieved (ie encouraging pharmaceutical R&D in Australia). However, on the basis of the statistics noted in the Draft Report that Australia represents two per cent of global pharmaceutical revenues, and less than 0.3 per cent of pharmaceutical R&D, any data would presumably support the conclusion that the extension of term system is not encouraging R&D in Australia.

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. Notwithstanding, the IPC supports the reform of section 76A to improve data collection requirements with the sanction that an extension of term should not be granted until data is received in a satisfactory form. In the opinion of the IPC, there should also be ongoing requirements to update the information included in the return. The IPC also agrees with IPTA's

²⁷ Draft Report page 287

²⁸ <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04031.html>

comments that there is a lack of clarity in the drafting of the current section 76A and that as part of any reform consideration be given to address some of these issues and to the types of 'spend' information that is collected.

As to the recommendation that after 5 years of data has been collected it should be used as part of a review to consider the ongoing costs and benefits of maintaining the extension of term system, in the IPC's view there are many factors that need to be assessed in determining whether the system should be maintained not just whether pharmaceutical R&D has been encouraged in Australia. The IPC does agree that such data could be used as 'part of a review'.

10 Chapter 10: Designs

10.1 Draft finding 10.1

Despite the deficiencies of the registered design system, Australia has committed internationally to protecting designs and there is no clear superior alternative.

The IPC notes the observations in the Draft Report that there has been limited research on the effects of designs rights on economic performance and that the lack of empirical evidence that designs rights produce net benefits to Australia calls into question whether it is playing a beneficial role in Australia's IP system. In our experience, Australia produces many clever designers who create excellent designs. If the goal is to encourage them to invest resources in better design and to exploit those designs both in Australia and abroad, it is counter-productive not to provide adequate protection in Australia and to impose extra costs on their attempts to export the fruits of their work. Therefore, the IPC considers that the current designs registration system is playing a beneficial and cost effective role in Australia's IP system, although it agrees that there is scope for improving the system. For this reason the IPC has supported many of the recommendations made by ACIP in its Final Report of its Review of the Designs System.

The IPC also questions how effective market strategies and other forms of IP are in protecting a product's design. In particular, in many if not most cases a shape trade mark registration will only be obtained on sufficient evidence of use of the shape as a trade mark. In the IPC's experience, trade mark infringement actions for shape marks are complicated and expensive. The trade mark owner's prospects of success are uncertain. Moreover, the requirement that the infringing use be use as a trade mark is very different to the rights afforded the owner of a protected industrial design under art. 26 of TRIPS and would not be sufficient to comply with those obligations.

In relation to the Draft Report's rejection of an unregistered design right (**UDR**) and as indicated in its Response to the Productivity Commission's Issues Paper, Intellectual Property Arrangements, the IPC has previously supported and continues to support a detailed inquiry to determine whether Australia should introduce an UDR somewhat similar to such a right existing in the United Kingdom and Europe.

The IPC considers any UDR protection should be in addition to registered designs protection and not a substitute for such protection. It appears to be generally accepted that the costs of registering and certifying designs makes the registered designs regime unsuitable for industries with a high volume and turnover of designs and that designers' understanding of the designs registration system is generally low. UDR protection would assist designers falling into these two categories. The nature of an UDR allows for great flexibility in defining the scope of protection including the innovation threshold, the duration of protection and the manner of infringement. However, the IPC only envisages an UDR system that provides protection against copying with the consequence that independent creation will not infringe. Such an anti-copying right would considerably limit the uncertainty surrounding the introduction of unregistered protection –

persons will generally be aware that they are copying another's product and there is a body of copyright case law dealing with the establishment of copying.

10.2 Draft recommendation 10.1

Australia should not join the Hague Agreement until an evidence-based case is made, informed by a cost-benefit analysis.

The IPC considers that a review of the implications of Australia joining the Hague Agreement should be undertaken now. This view is based on the fact that several of Australia's trading partners have now joined or are in the process of joining the Hague Agreement and the fact that Australia is committed to making best efforts to join the Hague Agreement under its Free Trade Agreements with the United States and Singapore. Regardless of whether or when Australia joins the Hague Agreement, the IPC considers that the maximum term for protection for registered designs should be 15 years with renewals at 5 and 10 years. The IPC further considers that it should be a requirement that a design must be certified before the first renewal and that the renewal fee at the 10 year stage should be increased with a view to providing an incentive to renew only those registrations having sufficient economic value.

In relation to the other material issues selected in the Draft Report in its consideration of options for improving the existing designs system, the IPC supports changing the terminology for a registered but uncertified design to make it clear that the design does not, until certification, confer enforceable rights and the IPC does not support the introduction of special provisions to protect virtual designs. The IPC only supports protection for partial designs if the absence of such protection is prejudicing Australian designers in seeking priority when registering their designs overseas. The IPC does not support the introduction of a grace period when there are no treaty obligations to do so, and further considers that if or when a grace period is introduced there must be a prior user defence.

11 Chapter 11: Trade Marks and GIs

11.1 Draft recommendation 11.1 (dot point 1)

In order to improve the effectiveness of the trade mark system, the Australian Government should:

- *restore the power for the trade mark registrar to apply mandatory disclaimers to trade mark applications, consistent with the recommendation of the Advisory Council on Intellectual Property in 2004*

The IPC supports this part of Recommendation 11.1.

The IPC's longstanding position is that disclaimers serve a very important purpose, arising primarily out of the wording of sub-section 120(1) of the *Trade Marks Act 1995* (Cth) (the **Trade Marks Act**), which provides that a registered trade mark may be infringed by the use, as a trade mark, of a 'sign that is substantially identical with, or deceptively similar to' that registered mark. A trade mark need not have been taken in its entirety for infringement to have occurred. A trade mark may be infringed where one or more of its essential features has been used by a third party, without licence.²⁹

Disclaimers support the important purpose of clarifying the scope of protection a mark receives under the *Trade Marks Act*, and therefore reduce the potential for confusion to arise in relation to

²⁹ *De Cordova v Vick Chemical Co* (1951) 68 RPC 103 at 105-106; cited with approval by the High Court in *Eclipse Sleep Products Inc v Registrar of Trade Marks* (1957) 99 CLR 300 at 315.

the extent of the exclusive rights conferred by registration of the mark. The presence of a disclaimer can serve to indicate what constitutes the 'essential features' of a registered trade mark. This is beneficial for the public as the scope of the exclusive rights conferred by a registered trade mark are defined more precisely.

The IPC also submits that the reintroduction of disclaimers will assist in the discharge of the Registrar of Trade Mark's statutory duty to determine whether a trade mark should be registered over prior registered marks. The presence of disclaimers facilitates the comparisons with prior registered marks that must be made during examination by providing a clear indication to examiners about what elements of marks should be compared for the purposes of determining whether, pursuant to section 44 of the *Trade Marks Act*, a mark is substantially identical with, or deceptively similar to, a prior registered mark.

From the perspective of third parties, the clarification of the scope of the exclusive rights afforded by a registered trade mark demonstrates to anyone wishing to use the disclaimed part of the mark that they can use that mark without that use itself infringing the rights granted to the registered owner under the *Trade Marks Act*. This necessarily reduces the scope of disputes that may arise between the registered trade mark owner and third parties. Disclaimers also reduce the propensity for third parties to be unsure whether use of a part of a mark might amount to infringement of the registration; which is particularly beneficial where such doubt might result in that third party not using that part of the mark where they were actually entitled to do so.

Finally, reintroducing mandatory disclaimers would not impugn Australia's obligations under the Trademark Law Treaty 1994, the Singapore Treaty on the Law of Trademarks 2006, or any other preferential trade agreements to which Australia is a party.

11.2 Draft recommendation 11.1 (dot point 2)

In order to improve the effectiveness of the trade mark system, the Australian Government should:

- *repeal part 17 of the Trade Marks Act 1995 (Cth)*

The IPC does not support this part of Recommendation 11.1.

The abolition of the defensive trade marks regime should not take place without a thorough analysis of how that regime is operating in practice. There may be utility in reviewing the operation of the defensive trade marks provisions of the *Trade Marks Act*, but that review should be a detailed study considering all aspects of the operation of those provisions.³⁰

There are only 300 defensive trade marks registered in Australia, including registrations for well-known marks such as NIKE, FACEBOOK, PERRIER, DYSON, BLACK CAVIAR and ALDI. There is no evidence identified in the Draft Report that the registration of such marks has given rise to consumer confusion. Rather, the purpose of defensive trade marks is to reduce the prospect of consumer confusion in relation to extensively used trade marks. Section 185 of the *Trade Marks Act* makes this purpose clear by stating that defensive trade marks may only be registered where an existing trade mark's usage in relation to other goods or services will indicate a connection between those other goods or services and the registered owner of the trade mark.

For example, the trade mark DYSON is registered for vacuum cleaners,³¹ while the defensive registration for that mark covers a broad range of goods and services including cleaning

³⁰ See the recommendations in the 1992 Final Report of the Working Party on "Possible Changes to the Australian Trade Marks Legislation".

³¹ Australian Trade Mark No. 712908 in class 9 for "vacuum cleaners and parts and fittings therefor".

preparations, refrigerating apparatus and toy household appliances.³² Were it not for the defensive registration, the use of the DYSON mark in relation to goods or services not the subject of the 'standard' registration in class 9 for vacuum cleaners would lead to consumer confusion as consumers would be misled to believe that such goods or services are associated with the owner of the DYSON registered trade mark.

For owners of famous trade marks, the mark is often one of their most valuable personal property assets. In addition to facilitating the prevention of consumer confusion, defensive trade marks offer important protection to the reputation and value of extensively used trade marks by restricting the unauthorised use of the mark on goods or services which consumers may nonetheless associate with the reputation of the more famous trade mark. The registration is defensive in nature and obstructs acceptance of third party applications which seek to misappropriate the reputation of the famous mark. This avoids lengthy, and often expensive, opposition actions and also minimises the prospect of litigation in relation to improper uses of the famous mark.

The IPC submits that the relatively small number of defensive marks is not indicative of a lack of use of the provisions, but rather serves as a reflection of the necessarily strict requirements to obtain registration of a defensive trade mark. The small number of defensive registrations is not a reflection of the utility of such registrations. They serve an important purpose in informing those searching the Register of Trade Marks of the existence of third party exclusive rights, and thus provide helpful information and give notice to the public of those exclusive rights.

11.3 Draft recommendation 11.1 (dot points 3 and 5)

In order to improve the effectiveness of the trade mark system, the Australian Government should:

- *amend s. 43 of the Trade Marks Act so that the presumption of registrability does not apply to the registration of marks that could be misleading or confusing.*

IP Australia should:

- *require the Trade Marks Office to return to its previous practice of routinely challenging trade mark applications that contain contemporary geographical references (under s. 43 of the Trade Marks Act). Challenges would not extend where endorsements require goods and services to be produced in the area nominated*

These two parts of Recommendation 11.1 have been dealt with together because they give rise to related issues. The IPC does not support the first of the two parts (recommending the change to section 43 so that the presumption of registrability does not apply), and the IPC is uncertain about the premise of the second of the two parts (namely, that there has been a deviation from the Trade Marks Office's (IP Australia's) previous practice in relation to geographical marks and section 43).

The concern expressed in the Draft Report appears to be that a substantial number of 'confusing' marks have been registered when these should have been rejected at the examination stage, and that a cause of this problem is the 'presumption of registrability'. The Draft Report states on p 341 that:

*[a]part from the **most blatant** cases, it appears difficult to reject a mark on the grounds that it is misleading and confusing. By removing the presumption, this does not give the*

³² Australian Trade Mark No. 1200766.

Trade Marks Office the ability to reject applications at whim, but rather bolsters the application process by seeking more clarity from applicants on why their application is not misleading and confusing [emphasis added].

The IPC does not, however, consider that this is an accurate reflection of the current examination process. Nor does it agree with the suggestion that removing the presumption of registrability would impact on outcomes under section 43 of the *Trade Marks Act*.

The presumption of registrability needs to be considered in the full context of the examination process. Under section 31(b) of the *Trade Marks Act*, an examiner is required to consider whether there are grounds for rejecting the application. This includes the ground under section 43, namely, whether the mark contains a connotation such that its use would be likely to deceive or cause confusion. Regulation 4.8 of the *Trade Marks Regulations 1995* (Cth) provides that 'if in the course of an examination of an application the [examiner] reasonably believes' that a ground of rejection (including section 43) exists, the examiner must report that belief to the applicant. Once that reasonable belief has been formed and communicated, it is up to the applicant to make arguments or provide evidence to persuade the examiner to change his or her opinion, in order for the section 43 objection to be overcome.

There is nothing in the *Trade Marks Act* or Regulations that specifies that a 'reasonable belief' that a ground of rejection exists can only arise in the 'most blatant' cases. This is not the effect of the presumption of registrability. The presumption applies if, on the balance of probabilities, the examiner remains in doubt as to whether or not the mark contains a confusing connotation. Because of the balance of probabilities standard, an examiner is entitled to form a 'reasonable belief' that the ground applies if there is insufficient information to show that the sign will be used on the specified goods or services in a manner that will not give rise to confusion (that is, making it 'more likely than not' that the use of the mark will give rise to confusion). In short, an examiner is always at liberty to seek 'more clarity from applicants on why their application is not ... confusing' in the course of the normal examination of section 43. Removing the presumption of registrability would not affect this process.

The more difficult question is whether Trade Marks Office practice is in need of change. That is, putting the presumption of registrability to one side, the question is whether the Trade Marks Office has developed a practice of taking a permissive approach to marks that signal certain qualities or characteristics (such as health or geographical origin) and are not giving adequate consideration to whether these signals would cause confusion.

The IPC's concern is that the Draft Report has not yet identified sufficient evidence to determine whether this problem exists. The Draft Report pointed to around 1,000 registered marks containing terms such as 'healthy', 'sustainable' and 'good for you'. However, no evidence was provided as to whether any of these marks had been registered for those expressions *solus* or in circumstances where it should have been found that the specified goods or services did not have these qualities. The Draft Report suggested that a particular problem had arisen in relation to 'geographical' terms, stating:

It is the Commission's understanding that geographical terms have previously attracted more scrutiny in the trade mark examinations process. Until around 15 years ago, section 43 of the Trade Marks Act was regularly used to raise objections to marks that contained references to geographical locations. However, this practice has since ceased on the understanding that labelling laws are perceived to be sufficient in ensuring the accuracy of marks (IP Australia, pers. comm., 23 February 2016).

If marks containing geographical terms are attracting a lower level of scrutiny than what is required by the *Trade Marks Act* and Regulations, this would be of concern. However, the Draft Report's statement does not reflect the experience of practitioners. The IPC does not consider

that there has been any discernible change in Trade Marks Office practice, either 15 years ago or at any time since. To the contrary, members of the IPC with experience in prosecuting trade mark applications indicated that objections continue to be regularly raised in relation to marks containing geographical terms, and that the Trade Marks Office routinely requires endorsements in such cases (for example, requiring the goods to be manufactured in the place indicated in the mark). The IPC does not believe that there is sufficient evidence that geographical marks are being, and have for the last fifteen years been, too easily accepted for registration.

If it is felt that a problem with Trade Marks Office practice does exist, an audit of accepted applications and registered marks from the last 15 years should be recommended to determine the precise scope of the problem.

The IPC acknowledges that it is always possible to point to isolated examples of registered marks that could reasonably have been rejected at the examination stage under section 43. It is equally possible to identify applications that should not have been rejected under section 43. These individual instances reflect inadequacies in examination standards in the Trade Marks Office, not fundamental problems with the law. The IPC does not consider that sufficient evidence has been provided of the existence of a systemic problem in the assessment of marks under this ground (whether as a result of the application of the presumption of registrability or simply through permissive practices). The IPC certainly agrees with the part of the Draft Recommendation that the Trade Marks Office should be 'routinely challenging trade mark applications that contain contemporary geographical references' where these might give rise to deception or confusion, but this goes no further than what the Trade Marks Office is currently required to do pursuant to discharging the Registrar's statutory duties under the *Trade Marks Act*.

As a final point, the Draft Report also noted that '[a]nother problem that confronts the Trade Mark Office is that their examination of a mark is at a point in time, and so does not consider whether a mark that is found not to be confusing today may become confusing in the future'. The IPC agrees that a mark becoming deceptive post-registration is a problem, but notes that in such cases the registration of such a mark can be cancelled under section 88(2)(c) of the *Trade Marks Act*. In addition, trade mark owners always run the risk of contravening section 18 of the *Australian Consumer Law*³³ if they use branding (including terms such as 'healthy', 'sustainable' or 'good for you', or geographical terms) in a manner that would mislead or deceive consumers.

11.4 Draft recommendation 11.1 (dot point 4)

In order to improve the effectiveness of the trade mark system, the Australian Government should:

- *amend the schedule of fees for trade mark registrations so that higher fees apply for marks that register in multiple classes and/or entire classes of goods and services.*

The IPC does not support this part of Recommendation 11.1.

Although increasing registration fees may lead to a decrease in the number of registrations, this is not the best way to achieve this outcome and increased fees is problematic for a variety of reasons.

First, the proposed fee increase for marks seeking registration across entire or multiple classes may be inconsistent with Australia's commitments under TRIPS. Article 15(4) provides that 'the nature of the goods or services to which a trademark is to be applied shall in no case form an obstacle to registration of the trademark'. The proposed prejudice to multiple class registrations

³³ The Australian Consumer Law is Schedule 2 to the *Competition and Consumer Act 2010* (Cth).

could constitute an 'obstacle' within the meaning of TRIPS. In some cases, the nature of the goods or services to which a trade mark is to be applied fits into a single class; however where it does not, the parties seeking registration will be disadvantaged.

Secondly, the Draft Report's proposed disincentive against multiple-class registrations may skew trade mark applications towards multiple single-class registrations, and in addition, as some applicants seek to save money, may result in some single-class registrations which are actually used across multiple classes. Such failure to register across all classes of use would result in increased consumer confusion and increased litigation relying on alternative actions such as misleading and deceptive conduct and passing off. Any increase in fees will inevitably disadvantage lesser-resourced applicants while failing to dissuade any applications from applicants of greater means. This will have an inequitable effect as lesser-resourced applicants may be deterred from making genuine applications for registration.

11.5 Draft recommendation 11.1 (dot point 6)

IP Australia should:

- *in conjunction with the Australian Securities and Investments Commission, link the Australian Trade Mark On-line Search System database with the business registration portal, including to ensure a warning if a registration may infringe an existing trade mark, and to allow for searches of disclaimers and endorsements.*

The IPC does not support this part of Recommendation 11.1.

The task of determining whether two trade marks are substantially identical or deceptively similar can be difficult. The Draft Report's proposed determination of criteria about when a name is judged to infringe would involve an oversimplification of the applicable law. The law regarding trade marks that are substantially identical or deceptively similar has evolved over time through extensive case law and is always assessed on a case by case basis. Any simplification of the law for the purpose of business name registration will inevitably lead to instances where members of the public believe that their business name does not infringe a trade mark when a court may find otherwise, and vice versa.

The IPC does not accept that the Draft Report's proposed automatic IP searches prior to registration will necessarily result in fewer instances of 'accidental' infringement. In fact, reliance upon automatic trade mark checks may be misunderstood as a substitute for comprehensive and considered trade mark registrability and freedom to use searches conducted by professionals with specialist skills and who, by reason of their training and experience, are better qualified to assess whether use of a business name may infringe registered trade mark.

The IPC is also concerned that automatic trade mark searches may reinforce existing misunderstandings among the general public which typically lead to disputes. The purpose of business name registration is to provide transparency of identity of the entity trading under the business name. Registration of a business name, of itself, neither creates a proprietary right nor ensures exclusivity of use of that name.

'Innocent' infringement commonly occurs because a person using a mark is insufficiently informed about prior rights of another to that mark. The IPC considers that the Draft Report's proposal of automatic trade mark searches, which do not address all aspects of the law of substantial identity or deceptive similarity, will not reduce innocent infringement and will likely cause further misunderstanding. A more effective alternative would be to strengthen public education regarding the differences between business names and trade marks and the effect of pre-existing IP rights.

11.6 Draft recommendation 11.2

The Australian Government should amend s 123 of the Trade Marks Act 1995 (Cth) to ensure that parallel imports of marked goods do not infringe an Australian registered trade mark provided that the marked good has been brought to market elsewhere by the owner of the mark or its licensee. Section 97A of the Trade Marks Act 2002 (New Zealand) could serve as a model clause in this regard.

The IPC's long-standing position on the parallel importation of trade marked goods was summarised at 1.6 in Part A of Submission 64 to the Issues Paper (footnotes omitted):

The IPC has long supported empirical inquiry into and reforms in relation to parallel importation of trade marked ... 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 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.

More specific concerns about the operation of the provisions of the *Trade Marks Act* dealing with parallel importation were set out in Attachment 2 to Submission 64A (this document being the IPC's June 2014 Submission to the Competition Policy Review (**Harper Review**)).

The IPC is pleased to see that the Commission has recognised this to be a problematic area of Australian law, and that it agrees with the IPC's suggestion as to a 'simpler test' that might operate. However, it reiterates that before a particular approach to reforming the *Trade Marks Act* is taken, both an empirical inquiry into the parallel importation of trade marked goods and a full review of the operation of relevant provisions of the *Trade Marks Act* need to be undertaken.

We note that Recommendation 13 of the Harper Review was that 'the parallel importation defence under the Act ... should be reviewed by an independent body, such as the Productivity Commission'. The Government's response to this Recommendation was simply that '[t]he terms of reference for the [Intellectual Property Arrangements] inquiry provide that the Productivity Commission is to have regard to the findings and recommendations of the Harper Review in the context of the Government's response, including recommendations related to ... the parallel importation defence under the *Trade Marks Act 1995*. It would be consistent with both Recommendation 13 of the Harper Review and cl 3(h) of the Terms of Reference for the Intellectual Property Inquiry for the Commission to make a Final Recommendation that an empirical inquiry into the parallel importation of trade marked goods, and a full review of the operation of relevant provisions of the *Trade Marks Act*, be undertaken by an independent body, which could include the PC. This sort of Recommendation, rather than the draft Recommendation 11.2, is needed to ensure that this important and complex issue is not considered to have been 'reviewed' simply by it having been considered as part of the Commission's current whole-of-IP inquiry.

11.7 Information request 11.2

To what extent and in what form does consumer confusion arise from the provision of wine and spirit geographical indications?

Under what circumstances should wine and spirit geographical indications be amended or repealed? Who should make such decisions?

The IPC notes that there are no geographical indications for spirits in Australia (only for wine) under the *Australian Grape and Wine Authority Act 2013* (Cth).

As to the first question, the IPC agrees with the statement that reg 21 of the *Australian Wine and Grape Authority Regulations 1981* (Cth) might, in application, give rise to consumer confusion in the circumstances described. However, to the extent that the Draft Report is asking for empirical evidence of the extent and form of such confusion, the IPC does not have any information to provide.

As to the second and third questions, the IPC does not have any information to provide.

12 Chapter 12: Plant Breeder's Rights

12.1 Draft recommendation 12.1

The Australian Government should proceed without delay to implement the Advisory Council on Intellectual Property 2010 recommendation to amend the Plant Breeder's Rights Act 1994 (Cth) to enable essentially derived variety declarations to be made in respect of any variety.

The IPC supports this recommendation.

13 Chapter 13: Circuit layout rights

13.1 Information request 13.1

What would be the implications of repealing the Circuit Layout Act 1989 (Cth)? Are there better ways to provide circuit layout rights?

According to WIPO, the Washington Treaty on Intellectual Property in Respect of Integrated Circuits has not yet entered into force. However, art. 35 of TRIPS requires Members (including Australia) to provide protection for layout-designs of integrated circuits in accordance with art. 2 to 7 (other than paragraph 3 of art. 6), art. 12 and paragraph 3 of art. 16 of that treaty. Articles 36 and 38 of TRIPS require certain minimum protections and art. 37 provides for some limitations in some specified situations.

The *Circuit Layout Act 1989* (**Circuit Layout Act**) is the means by which Australia seeks to comply with these obligations. At the time of its enactment, the *Circuit Layout Act* was described as being consistent with the main elements of the treaty (then in draft form). Repeal of the *Circuit Layout Act* then would potentially put Australia in breach of its obligations under TRIPS (unless it were replaced with new legislation in much the same terms).

Apart from protection under the *Circuit Layout Act*, layout-designs would typically qualify as artistic works and, possibly, as literary works. As the protection of such designs is addressed through the *Circuit Layout Act*, they are excluded from the definition of 'artistic work' for the purposes of the *Copyright Act* and integrated circuits are excluded from protection under the *Designs Act 2003* - see section 43.

If the *Circuit Layout Act* were repealed, therefore, these exclusions would not be operable. Layout-designs could then qualify for the much longer term of protection afforded under copyright law (except to the extent that the corresponding design provisions were triggered). It is not clear

to the IPC that registration under the *Designs Act 2003* (Cth) would necessarily satisfy the obligations under TRIPS.

14 Chapter 14: Intellectual property rights and competition law

14.1 Draft recommendation 14.1

The Australian Government should repeal s. 51(3) of the Competition and Consumer Act 2010 (Cth) (Competition and Consumer Act).

The Australian Competition and Consumer Commission should issue guidance on the application of part IV of the Competition and Consumer Act to intellectual property.

The IPC does not support Draft Recommendation 14.1 for the reasons previously identified in detail which are attached and not restated here in full.³⁴

While correctly identifying that an appropriate balance between competition and IP must be struck, the Draft Report (like the Harper Review) does not address the underlying policy considerations and competing interests in detail sufficient to inform the proper striking of that balance. In its response to the Harper Review, the IPC submitted '*that it was 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.*'

The Draft Report contains no such review. It does little more than restate and rely on the Harper Review, despite noting that the Harper Review's recommendations are not consistent with earlier reviews such as the NCC review. It does not provide any quantitative evidence as to of what the effect of its repeal would be, contrary to the approach put forward by Draft Recommendation 2.1.

Attention is also drawn to the following errors and omissions.

In repeating the ACCC view that section 51(3) is unclear, the Draft Report fails to consider the *ACCC v Pfizer* decision in which the Federal Court construed section 51(3) without difficulty (see paragraph [78]).

It is notable that the Draft Report – aside from a brief mention on p. 387 – overlooks the other carve-outs from section 51(3), which exclude sections 46, 46A and 48 from the exemption.

The statement that 'most comparable jurisdictions have no equivalent to subsection 51(3)' (p. 391 of the Draft Report) is wrong if it is intended to imply that other jurisdictions do not have carve outs for IP licences. Europe has express regulatory exemptions that are not mere explanatory notes. The US has issued guidelines but in the context of a different legal framework where the courts have created a 'rule of reason' exception which protects IP licences. The rule of reason exception is not part of the Australian law.

The suggestion that this can be worked out by the ACCC issuing guidelines puts businesses in a position where they are in breach of the law but rely on the ACCC to say they will not be prosecuted. This is inconsistent with the European and US approach where there are, in one form or another, block exemptions or genuine safe harbours. An explanatory note will not do instead of an exception.

Licensing is common and fundamental part of the patent system, the full implications of which have not been considered. It is an important part of the secondary market for IP. There is an assumption in the Draft Report that patentees want only to exclude and that is true of some patentees, but licensing is widespread and the norm in many areas of technology. In IT in

³⁴ Intellectual Property Committee of the Law Council of Australia's Business Law Section 'Submission in Response to the Competition Policy Review Final Report' dated 15 May 2015; Intellectual Property Committee of the Law Council of Australia's Business Law Section 'Response to the Productivity Commission Issues Paper, Intellectual Property Arrangements' dated 1 December 2015 at paragraph 1.11.

particular, patents and licensing are used as a means of sharing the cost of R&D amongst diverse users of the technology. A particular example of this is the FRAND system for standard essential patents (or SEPs), which is only briefly mentioned in the Draft Report (section 14.3 on p.399) despite its importance to products incorporating standards essential IP. The Draft Report notes that many patents are taken out with the intention of licensing them but ignores the corollary that they are then licensed.

The proposed changes to section 51(3) inhibit rather than encourage licensing, by increasing the red tape and regulatory cost of clearance for licenses and by prohibiting particular licensing transactions.

15 Chapter 15: IP and public institutions

15.1 Draft recommendation 15.1

All Australian, and State and Territory Governments should implement an open access policy for publicly-funded research. The policy should provide free access through an open access repository for all publications funded by governments, directly or through university funding, within 12 months of publication. The policy should minimise exemptions.

The Australian Government should seek to establish the same policy for international agencies to which it is a contributory funder, but which still charge for their publications, such as the Organisation for Economic Cooperation and Development.

The Draft Report recommends open access for publically funded research. It leaves to funding agencies the question of filing for patent protection or otherwise relying on patent protection.

The problem of access to published work identified by the Draft Report is real. Libraries no longer hold hard copies of many traditional journals. Researchers can no longer access hard copies of traditional journals in libraries and are often charged substantial fees for online access.

There are now many open access journals and funding agencies can require publication in those journals or via an open access scheme such as the NIH scheme in the US, which provides free on line access. The NHMRC has a similar approach in Australia.

As a result, requiring open access to publications is a reasonable approach in many cases.

The issue, nevertheless, requires a more nuanced approach than that suggested in the Draft Report.

In general, an open access model is practicable for journal articles reporting on the results of publically funded scientific research (such as NHMRC funded work, as the Draft Report identifies on p. 408).

In cases where the work is to be protected by patent, publication can occur after the patent application is filed or within the grace period so patenting and open access are not in fundamental conflict.

However the free access model is not necessarily right for all areas of research.

Works such as textbooks and literary output such as novels and poetry and artistic works have traditionally been in a different category, and it has been regarded as legitimate for the author or artist, albeit that they are employed or might receive some government or institutional funding, to sell the work or to seek royalties on publication. The IPC is not aware of any evidence that that approach is not still appropriate. The same may be true of functional copyright such as computer programs which have been sold or licenced by researchers.

The view is recorded in the Draft Report that the research institution owns the IP in work of employed researchers. This is not always correct. For example, in the case of academics, in *UWA v Gray* (2009) 179 FCR 346 (special leave refused), it was held that IP was owned by the academic and not by the university which employed him. Some universities (eg the University of Melbourne) have policies which expressly allow academics to own and benefit from their IP.³⁵ This is promoted as a benefit of their employment. Other Universities take a strict view on University ownership of IP and impose conditions to that effect. Different policies may apply to research outputs and teaching materials.

It follows that there are different models appropriate to different circumstances and it is submitted that as a general rule the options should be able to play out in the market.

Accordingly, and while it will generally be appropriate for scientific research funding agencies to be encouraged to impose a condition requiring open access publication of scientific research, along the lines of the rules of the NHMRC, the policy should not necessarily be applied as a blanket rule to IP generated in all fields of endeavour.

Indeed the rate of change of technology and practice in the field of publishing is such that the Commission should not attempt to adopt anything other than a general approach. 20 years ago the idea that public and institutional libraries would be destroying entire collections of journals, and referring users to pay-for-use on line resources would have been surprising to many.

As to patenting, many research institutions make returns (and some have made very large returns) from licensing IP or from other commercialisation of IP. In some cases this has amounted to hundreds of millions of dollars.³⁶

This is money used to support education and research which does not need to be provided by way of government funding. Licence fees are paid (appropriately) by the users of the technology that has been developed by the research institution and, relevantly, revenue is commonly derived from offshore. It is submitted that this is a sensible general approach and that the conclusion that the possibility of patenting of research should be retained is correct.

It is, however, to be noted that the matter is not one for government or funding agencies alone. The question also involves negotiation with research institutions and researchers.

16 Chapter 16: Intellectual property's institutional and governance arrangements

16.1 Information request 16.1

What institutional and governance settings would best ensure that IP policy benefits from a policy champion and is guided by an overarching policy objective and an economywide perspective?

Would vesting IP policy responsibility in a single department further these goals, and if so, which department would be best placed to balance the interests of rights holders and users, including follow-on innovators?

³⁵ See University of Melbourne Statute 14.1 – Intellectual Property clause 14.1.2 available at <http://unimelb.edu.au/governance/statutes/c14#s141> and the University of Melbourne Intellectual Property Principles (UOM0464) available at http://unimelb.edu.au/_data/assets/pdf_file/0003/1671168/Intellectual_Property_Principles_under_review.pdf.

³⁶ For example see 'Cancer Therapeutics CRC to benefit from multimillion dollar licensing deal' at <https://www.cancercrc.com/cancer-therapeutics-crc-benefit-multimillion-dollar-licensing-deal/> (accessed 31 May 2016) and 'CSIRO: Financial Performance: A high level summary of our financial performance compared with previous years' at <http://www.csiro.au/en/About/Our-impact/Reporting-our-impact/Annual-reports/12-13-annual-report/Part2/Financial-performance> (accessed 31 May 2016).

Are there any complementary or alternative measures that would help facilitate more integrated and evidence-based IP policy-making?

Vesting separate or overlapping responsibilities in multiple government departments in relation to IP rights is inefficient and may result in multiple departments becoming involved and thus diluting responsibility or hampering efforts to address issues. By way of example, the IPC has had experience, when consulting with IP Australia in relation to trade marks issues, that copyright implications have arisen. Unless representatives from another department (recently changed) are included in consultation meetings, these implications may be overlooked. If representatives are included they may not be properly briefed on the trade mark issues which may result in double-handling of the issue and potential derailment of the consultation.

The IPC therefore submits that IP generally should be placed under one administrative head, whether as part of a government department or as a freestanding agency. This model has been implemented successfully in the UK. While developments over recent years suggest that the government has taken steps in this direction, with more awareness of the need to co-ordinate and a modest amount of consolidation, for example with IP Australia becoming responsible for the administration of laws in relation to plant breeder's rights, the transfer of copyright from the Attorney General's Department to the Department of Communications and the Arts³⁷ was made without any clear rationale being expressed. It is not clear what was considered in making the change, but the effect is that areas of copyright relevant to innovation and technical matters, such as circuit layouts, databases and unregistered designs, remain outside the purview of IP Australia. In addition, although the Draft Report makes the point that copyright is not a registered right, there is still 'administration' involved in relation to collecting societies and the Copyright Tribunal. The IPC's submission is that there be a general IP Office, such as in the UK, which handles all IP rights (including geographic indications). This could be freestanding or within the umbrella of a department.

The distinction made in the Draft Report between regulation and policy making is well made. The IPC submits:

- regulators should to continue to have a role in policy making, as is presently the case with IP Australia, but that
- this should be counterbalanced by a body providing independent advice.

In this regard, a free-standing and appropriately supported committee of experts is proposed. It is submitted that the body needs some degree of permanency and independence, rather than the kind of *ad hoc* character and reliance upon volunteers that exemplified bodies such as ACIP and the Copyright Law Review Committee (CLRC). While these bodies did very good work, they were often not appropriately resourced and their success was often dependent upon the good offices of those appointed. In the 1990s, the IPC proposed the appointment of an IP Law Commission; a specialist body akin to the ALRC or the Productivity Commission, on the basis that the costs of doing this would more than make up for the aggregate costs of multiple individual, *ad hoc* inquiries. The IPC maintains the view that such an approach would be preferable.

In light of the above comments, the IPC's suggestions are as follows:

- 1 All IP matters should be based within one government department, such as the Department of Industry, Innovation and Science.

³⁷ See Commonwealth of Australia, 'Administrative Arrangements Order' 21 September 2015, available at http://www.dpmc.gov.au/sites/default/files/files/AAO_amendment_21_Sept_2015.pdf.

- 2 That Department have dedicated and co-ordinated units that are responsible for policy formulation and implementation within each area of IP, including legislation and international engagement.
- 3 There be a continuing IP regulatory body, such as IP Australia, that would be responsible for each of the registered rights. This could continue to sit within the Department of Industry, Innovation and Science as at present or be outside, subject to ministerial direction, similar to the ATO and ASIC.
- 4 There be a permanent and freestanding IP Law Commission that would be responsible for overall review and evaluation of the IP system. For the most part, this would be responsive to references from the responsible minister, but might have a capacity to undertake its own inquiries.

17 Chapter 17: International cooperation in IP

17.1 Draft finding 17.1

Approaches to international cooperation and lowering transaction costs will be most effective when pursued multilaterally rather than through bilateral arrangements. Moreover, harmonisation of laws is not the sole, or necessarily desirable, form of cooperation. Other approaches to international intellectual property cooperation can achieve their goals at lower cost and with greater flexibility.

The IPC generally agrees that multilateral agreements are preferred in principle to bilateral agreements. However given the difficulty in reaching agreement at a multilateral level, bilateral and plurilateral agreements will inevitably be part of the landscape for the foreseeable future.

The Draft Report does not consider or quantify the benefits of harmonisation, but these are plainly substantial. For IP owners engaged in international trade, procedures which mean that a patent or trade mark can be granted in all relevant countries with minimal separate review and minimal differences in terms of scope, validity and enforcement, is obviously beneficial in terms of cost saving, efficiency and business certainty. Harmonised procedures are equally relevant to those concerned about whether their product infringes others' rights. This reduces the need to conduct multiple searches and get advice on local laws including issues such as infringement, validity and the availability of defences issued in multiple jurisdictions. It means the same product can be sold easily in multiple jurisdictions with direct benefits to trade.

These issues are even greater in the context of online trading, where users access, and often do not discriminate between, websites in different countries.

At the same time, it is not desirable to be tied down by highly restrictive treaties, which cannot be changed, even when there is good reason to do so, because of the number of parties that need to agree and the difficulties in reaching agreement in international negotiations. It is notable that recent trade agreements to which Australia has been a party, including in particular the TPP, appear to have focused on setting baselines for substantive law with little attention to harmonisation at the level that would allow either cross-border trade or streamlining of multi-jurisdictional applications for rights.³⁸ There is evidence that detailed substantive commitments cause problems for law reform.³⁹

³⁸ Kimberlee Weatherall, 'Intellectual property in the TPP: Is Chapter 18 the new TRIPS?', Paper presented at the Global Economic Law Network Symposium, May 2016.

³⁹ Kimberlee Weatherall, 'The Australia-US Free Trade Agreement's impact on Australia's copyright trade policy' (2015) 69(5) *Australian Journal of International Affairs* 538

It is submitted that Australia should continue to aim to harmonise its IP law with its major trading partners, but that efforts to harmonise should, where possible, be at a policy level (ie by unilateral decision to align our law with another country as occurred with a number of the 2013 Raising the Bar changes which adopted EU principles), or by less formal agreement such as the administrative and non-binding agreements that exist between patent offices, or work currently progressing as part of Australia and New Zealand's Closer Economic Relations arrangements, rather than by committing to prescriptive treaties.

In this context it is submitted it is exactly the wrong approach to adopt laws which are simply the minimum to which we are bound by international treaty.

17.2 Draft recommendation 17.1

Australia should revive its role in supporting opportunities to promote global cooperation on intellectual property policy among intellectual property offices through the World Intellectual Property Organization and the World Trade Organization to avoid duplication and reduce transaction costs.

The IPC agrees with PC's view that Australia should continue to engage with such bodies as WIPO and the WTO. It is important that such engagement has continuity – for example attending meetings, building contacts, etc and realising that this (a) costs money, and (b) requires careful nurturing of corporate memory on the part of the officials attending these meetings.

17.3 Information request 17.1

How extensively have mechanisms such as the Patent Cooperation Treaty and patent prosecution highways been used to reduce the transaction costs of obtaining IP protection overseas? Have Australian businesses utilised opportunities for licensing through SourceIP? Are there other options that would facilitate and promote the licensing and transfer of intellectual property between Australia and other countries?

There is clear data available from IP Australia and WIPO⁴⁰, demonstrating the extensive use of the PCT and PPH to reduce transaction costs in obtaining IP rights.

18 Chapter 18: Compliance and enforcement of IP rights

18.1 Draft recommendation 18.1

The Australian Government should expand the safe harbour scheme to cover the broader set of online service providers intended in the Copyright Act 1968 (Cth).

The IPC supports this recommendation.

The IPC notes that schedule 2 of the exposure draft of the Copyright Amendment (Disability Access and Other Measures) Bill was directed to this issue.

The IPC notes that the definition of 'service provider' proposed in item 4 of the exposure draft is consistent with Australia's obligations under the Australia-United States Free Trade Agreement.

The IPC notes further that the definition of 'service provider' for the activities corresponding to sections 116AD, 116AE and 116AF in the US Copyright Act is in slightly different terms. Section 513(k) provides:

⁴⁰ For example, regarding the PCT system see http://www.wipo.int/ipstats/en/statistics/country_profile/profile.jsp?code=AU, and regarding the PPH see <https://www.jpo.go.jp/pph-portal/statistics.htm>.

(B) As used in this section, other than subsection (a), the term “service provider” means a provider of online services or network access, or the operator of facilities therefor, and includes an entity described in subparagraph (A).

It may be arguable that a provider of online services may not necessarily also be the provider or operator of the facilities by which the services are provided. For example, there are a number of telecommunications providers in Australia which 'resell' either Telstra's or Optus' services. Boost Mobile for example uses, and promotes its services as using, the Telstra network. It is not clear to the IPC that a business such as Boost Mobile would qualify as a 'service provider' under the proposed definition although they would under the definition in the US Copyright Act.

18.2 Information request 18.1

The IPC notes that the Draft Report does not recommend the use of specialist judges. This is contrary to experience in the Federal Court in Australia where specialist panels have been reintroduced after significant problems arose when specialist panels were temporarily abandoned in some places.⁴¹ The use of specialist judges has been found to be valuable in almost all countries with developed jurisprudence including the UK (the Patents Court within the High Court) and US (the Federal Circuit, for Appeals, and specialised District Court trial judges) and most European countries.

Specialisation is even more important in a lower level court where matters need to be decided efficiently and without extensive time being spent on judicial education. The Patents County Court (**PCC**) experience in the UK and the experience of the Federal Circuit Court (**FCC**) to date here show very clearly that parties will not use lower courts extensively if the judges are not expert at handling IP matters. The high quality and knowledge of IP law of the judges of the Intellectual Property Enterprise Court (**IPEC**) in UK have, according to the UK profession, been critical to its success.⁴² The suitability of the judge as well as a relevant background is important.

The greatest current barrier to adoption of the FCC jurisdiction to date has been that cases are not managed and decided by a judge with IP expertise.

If a lower court is often reversed on appeal (as was the case for a time with the PCC) there is no advantage in bringing cases there, whatever the cost saving at first instance. If the cases are run inefficiently because the judge is not familiar with the area, needs education, and cannot quickly 'sort the wheat from the chaff', then the consequence of limits on costs is that parties simply run up irrecoverable costs.

The appointment of a single FCC judge with IP expertise who could hear IP cases nationally, (combined with the adoption of specific IP rules and practice) is likely to be sufficient. In that regard, the IPEC has a single judge notwithstanding that the UK is a much larger jurisdiction than Australia.

⁴¹ See <http://www.fedcourt.gov.au/law-and-practice/national-court-framework>.

⁴² See for example Osborne Clarke, 'The Intellectual Property Enterprise Court: a new IP judge for small enterprises' (18 November 2013) available at <http://www.osborneclarke.com/connected-insights/blog/intellectual-property-enterprise-court-new-ip-judge-small-enterprises/>, which states that '[u]nfortunately, for a variety of reasons the court was not successful in that aim for its first 20 years in operation. But with the appointment in 2010 of HHJ Birss as its presiding judge, the court was transformed virtually overnight.' In addition, see also International Chamber of Commerce, 'Adjudicating Intellectual Property Disputes: An ICC report on specialised IP jurisdictions worldwide' (April 2016) available at <http://www.iccwbo.org/News/Articles/2016/New-ICC-report-reveals-the-diversity-of-specialised-jurisdictions/>.

Information request 18.1 seeks answers to the following questions.

Would changes to the jurisdiction of the Federal Circuit Court improve access to dispute resolution by small- and medium-sized enterprises? Should additional rules be introduced, such as caps on the amount of costs claimable in a case? What is the upper limit on damages claims the court should hear?

Are there resourcing impediments to the proposed reforms to the Federal Circuit Court?

Can greater use be made of cost orders in the Federal Court, including for discovery, to reduce costs further? Should additional Federal Court rules be introduced, such as caps on the amount of costs claimable in a case?

Subject to appointment of an expert judge being a critical step, the IPC is supportive of the idea of using costs limits to encourage use of the FCC. This would need to be applied in conjunction with a policy in the Federal Court that matters appropriate to the FCC would not recover costs at the Federal Court scale. That approach is analogous to that now applied in the state court system.

There is a particular problem for many IP cases. That is because of the potential for discrepancy between the quantum of the infringement claim and the value of the IP in dispute. For example, the validity of a very valuable trade mark may be put in issue in a minor infringement claim, otherwise entirely appropriate to the lower court.

One possible solution to this issue would be to give the FCC power to consider validity as a defence to infringement without revoking registration, in appropriate cases. This sort of procedure is used in Canada in the Notice of Compliance system, although that system has a defect in that litigation can be duplicated. That defect would not arise in the same way if the infringement determination was final as between the parties.

A second issue is that the relief for IP infringement ordinarily includes an injunction. The damages recovered may bear little relationship to the importance of the case particularly where a *quia timet* injunction is granted before any infringement occurs. As a result a rule based on quantum of relief may be problematic if applied strictly. There should be sufficient flexibility to ensure that appropriate major cases were determined in the Federal Court.

A possible course, which would be consistent with the approach adopted at a state level, may be to give the FCC unlimited jurisdiction but provide procedures for appropriate major matters to be commenced in or transferred to the Federal Court. A flexible approach of this kind works in state courts.

Limiting costs would be critical to a functional lower court system. However, IP cases can vary greatly in complexity and while a fixed cap has worked well in the UK, and is one option, it may be preferable to have a simple scale of costs (like the scales used in lower state courts) rather than a cap. This would provide a lower cost structure than the Federal Court but allow for some differential in cost recovery depending on the complexity of the case. Appropriate costs scales could correspond to State County or District Courts for example.

As to whether it would be appropriate to extend patent jurisdiction to the FCC, that would depend critically on appointment of a suitable judge and the adoption of specific rules and procedures. It might be more widely used if the court had the option of considering validity as a defence only, but this would need to be further considered.

In terms of resourcing, as patent matters are usually more technically and legally complex than other FCC cases, it may be appropriate to provide the judge with greater resources, in terms of matters such as technical and legal research assistance, than would ordinarily be provided to a FCC judge.

In any case the judge would also need to be provided with the resources to conduct hearings by video link and to travel to different registries for trials.

As to the Federal Court, the IPC's view is that the new guidelines and list approach should be given time to work their way through. Any decision should be based on experience of how the current reforms work in practice.

Attachment A: Profile of the Law Council of Australia

The Law Council of Australia exists to represent the legal profession at the national level, to speak on behalf of its Constituent Bodies on national issues, and to promote the administration of justice, access to justice and general improvement of the law.

The Law Council advises governments, courts and federal agencies on ways in which the law and the justice system can be improved for the benefit of the community. The Law Council also represents the Australian legal profession overseas, and maintains close relationships with legal professional bodies throughout the world.

The Law Council was established in 1933, and represents 16 Australian State and Territory law societies and bar associations and the Law Firms Australia, which are known collectively as the Council's Constituent Bodies. The Law Council's Constituent Bodies are:

- Australian Capital Territory Bar Association
- Australian Capital Territory Law Society
- Bar Association of Queensland Inc
- Law Institute of Victoria
- Law Society of New South Wales
- Law Society of South Australia
- Law Society of Tasmania
- Law Society Northern Territory
- Law Society of Western Australia
- New South Wales Bar Association
- Northern Territory Bar Association
- Queensland Law Society
- South Australian Bar Association
- Tasmanian Bar
- Law Firms Australia
- The Victorian Bar Inc
- Western Australian Bar Association

Through this representation, the Law Council effectively acts on behalf of more than 60,000 lawyers across Australia.

The Law Council is governed by a board of 23 Directors – one from each of the constituent bodies and six elected Executive members. The Directors meet quarterly to set objectives, policy and priorities for the Law Council. Between the meetings of Directors, policies and governance responsibility for the Law Council is exercised by the elected Executive members, led by the President who normally serves a 12 month term. The Council's six Executive members are nominated and elected by the board of Directors.

Members of the 2016 Executive as at 1 January 2016 are:

- Mr S. Stuart Clark AM, President
- Ms Fiona McLeod SC, President-Elect
- Mr Morry Bailes, Treasurer
- Mr Arthur Moses SC, Executive Member
- Mr Konrad de Kerloy, Executive Member
- Mr Michael Fitzgerald, Executive Member

The Secretariat serves the Law Council nationally and is based in Canberra.