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Introduction

Following on from the recommendations of the 2010 Senate Community Affairs References Committee’s Report on Gene Patents, IP Australia commissioned the Centre for International Economics (CIE) to investigate the economics of isolated human gene patents in Australia, and to analyse evidence on the economic costs and benefits to Australia of the patenting of human genes.

The CIE’s final report (the Report), released in June this year, reflects an extensive review of the medical literature and consultation with a wide range of key stakeholders to assess the impact of patents granted over human gene sequences on access to investor finance, international collaboration and research funding, price premiums, costs to Australian consumers where higher prices are paid for human gene sequence innovations, and impacts on incentives to innovate and the introduction of new treatments and methods of diagnosis due to the costs and barriers of negotiating use of patented human gene sequences.

Isolated Human Gene Patents

First, the Report notes that views vary on the merits of isolated human gene sequence patents. While proponents assert that patents are crucial in supporting high risk and high cost medical discovery and development, critics express concern about how they may limit the accessibility and inflate the price of healthcare and diagnostic services.

For the purposes of the study, the Report defines isolated human gene sequence patents as those that include at least one claim to an isolated human gene sequence or a portion or fragment of an isolated human gene sequence. As such, patents related to isolated human genes that cover only methods of use or modified gene sequences were excluded from the definition.

The Report further notes that the objectives of isolated human gene sequence patents are fundamentally economic – namely, to encourage investment in useful technologies and promote innovation through the diffusion of knowledge and the incentive of a legally enforceable exclusive right to commercially exploit the invention for a particular period of time.

At present, patents underpin much of the human genetic-related research and development to improve the diagnosis or treatment of health conditions based on a patient’s genes, particularly those involving private research and development. There are, however, regulatory, market-based, scientific, and other factors that influence how much human gene-related research and development is funded, how research translates into improved health outcomes, and what the impacts are of newly available genetic technologies. Isolated human gene patents are not the only incentive to innovate or invest, but in some cases, and almost always with respect to translational research, they can be vital and fundamental to attracting large-scale investment for high risk research.

The Report postulates that isolated human gene patents should help facilitate the commercialisation of human genetic technology inventions, patents generate income for researchers and play a key role in spurring and incentivising innovation across the biomedical research sector. The estimated annual return of royalty and associated income to Australian entities of the subset of patents relating specifically to isolated human gene sequence patents currently held is in the order of $1.1 million to $2.6 million.

Assessing the Impact of Patenting Isolated Human Genes

The Report comments that it is not possible to “count up” the benefits and costs of isolated human gene patents, although some of the economic impacts can be broadly estimated. It draws together various data sources and highlighted many of the key benefits and costs of patenting in order to:

- Provide an order of magnitude around the known and tangible economic impacts of isolated human gene patents.
• Identify areas where costs, risks or uncertainties are likely to highlight the trade-offs of the patent system in the context of isolated human gene patents.

As there are many permutations of possible outcomes, the Report also cautions that it is too simplistic to attribute all costs or all benefits to upstream isolated human gene patents. Instead, the analysis leads to a series of threshold questions that help to illuminate when isolated human gene patenting is likely to be most valuable, and when it is likely to impose more adverse consequences. These threshold questions are neither exhaustive nor definitive, with different questions relating to first-to-market inventions as well as follow-on or designed around innovation. For instance:

• To what extent are patents essential to incentivising upstream human genetics research?
• To what extent are patents essential to technology transfer between upstream and downstream researchers?
• Are upstream isolated human gene patents critical to the entry of candidates to clinical trials?
• To what extent are upstream patents critical in achieving a positive rate of return on research and development?
• Is access to upstream human genetic technology available under licence or by other arrangements during the patent term?
• Is the cost of access to patented technologies excessively onerous?
• Are the conditions of access to patented technologies excessively onerous?
• What is the patented technology useful for?

Key Findings of the Report

In short, the Report aims to fill key gaps in the existing literature to review the economic impact of isolated human gene patents – of their impact on incentives and disincentives to undertake and commercialise research in Australia.

Its key findings include that:

• Patents play an important role in incentivising innovation and the public-private partnerships required to bring new human gene based medicines and diagnostics to market.
• Patent activity related to isolated human gene sequence patents has declined dramatically since the completion of the Human Genome Project in 2003, and that current patenting activity is increasingly focused on methods of using isolated gene sequences and on modified (i.e. not naturally occurring) DNA and genetic sequences created in laboratories.
• Approximately $795 million was invested in gene technologies related to human health in Australia during 2011-12, and this has been rising over time. Isolated human gene sequences are part of that investment, but it is not possible to isolate the precise share. Of the total $795 million, 79% was publicly funded and 21% ($164 million) was private.
• Measurable economic impacts associated with isolated human gene sequence patents are small in terms of royalty and fee income attributable to the patent. An estimated total of $1.1 million to $2.6 million per annum is earned by publicly funded research institutions. It was not possible to estimate the returns that private patent owners earn in foreign markets, where we know Australians filed 58% more patents in 2011 than they did at home.
• The real value in patents lies in their role in incentivising innovation and the public-private partnerships that are required to bring new human gene based medicines and diagnostics to market that ultimately improve health outcomes.
• Costs often cited as caused by isolated human gene patents, e.g. price of gene diagnostic tests or the inability to improve on diagnostics, do not appear to be the result of the patent itself, but rather issues over exclusive licensing, complexity of the technology or business relations. No additional economic cost attributable to these patents could be identified.
• Reflecting changes in patent activity, increasingly the patents involved are those that are not isolated human gene sequence patents.
Editorial – The Economics of Human Gene Patents in Australia

• As such, the Report balances complex evidence and arguments concerning ethical issues, medical issues, economic, commercial and legal issues which should support future policy development by IP Australia on the challenging issues associated with human gene patents in Australia.

US Supreme Court Decision in Myriad Genetics

On 13 June 2013, the US Supreme Court finally handed down its long-awaited decision in Myriad Genetics, which invalidated one of Myriad’s patents on mutated BRCA-gene sequences associated with increased risk of breast cancer. Though widely described as a “gene patent”, Myriad’s patent, in fact, did not claim genes per se, but rather claimed the sequences in their “isolated” form. Such claims – “isolated XYZ substance” – have long been widely accepted as a valid approach for claiming purified or isolated substances extracted from nature (e.g., insulin, antibiotics, blood coagulation factors, to name a few).

Previously, the Federal Circuit had twice considered these claims and upheld them both times. Nevertheless, the Supreme Court held that for genomic sequences “isolation” does not go far enough in distinguishing them from the genomic DNA. According to the Court, such claims merely attempt to protect “natural phenomena”.

Many questions arise from the US Supreme Court decision, including: how it will affect the biotech industry; whether it will promote or stall innovation; whether it will reduce the cost or increase access to medicines; those sectors of the biotech industry which it will most impact; how large will the impact be on existing patents; and how, generally, should a biotech company respond to the decision. Here, a few salient observations may be made.

On one level, the decision was widely foreshadowed by the biotech industry, and in many cases, backup positions had already been put in place. In this respect, “isolated” sequence claims are only one of many various types of claims that are typically drafted into a patent application or a patent portfolio. As a case in point, Myriad itself announced shortly after the decision that it has about 500 other claims covering the BRCA test that remain unaffected by the US Supreme Court’s decision.

Importantly, the decision was only concerned with genomic DNA, and not with other biological sequences. Even with DNA, the Court concluded that complementary DNA (cDNA) – non-naturally occurring DNA molecules in which noncoding DNA is deleted – is patentable. It is likely, however, that many will extend the Court’s logic to claims directed to other naturally found biologic molecules, such as “isolated” antisense DNA, microRNA, siRNA, bacterial and viral nucleic acids or even sequence fragments of naturally occurring proteins, natural antibiotics, hormones, isolated stem cells, and the like.

The decision leaves the door open for claims to chemically modified sequences and other types of claims. The Court did not specify what type of modification is sufficient to cross the line from merely being a “product of nature” to being a patentable invention. It is likely that a sequence will need to be modified chemically to render the molecule some new property to be deemed to be patentable. Most biological drugs contain chemical modifications relative to their naturally occurring forms, and if so circumscribed by the claims, they will avoid the Myriad decision.

The decision should make it more difficult to protect early discoveries. Traditionally, at the point of foundational discovery, very little is known about chemical modifications that ultimately will be present in the future drug. There is a concern that claiming conventional chemical modifications that are well-known in the art may be viewed negatively by courts as a clever attempt to circumvent the Myriad ruling. At the same time, drafting narrower, more specific claims has the inherent risk that some valuable territory will remain unclaimed. As a result of the decision, more effort may need to be channelled into developing multiple backup strategies. For example, where a single sequence claim may have previously been sufficient, multiple and diverse narrower claims may now be necessary to restore the commercially relevant competitive playing field to the pre-Myriad levels.

It would appear that the majority of patent experts in the United States agree that Myriad’s claims did not and could not claim the genes as they are found in the human body. By weakening patent protection on the early fundamental discoveries, the US Supreme Court has reduced the incentive for innovators to publicly disclose certain types of inventions.

In essence, the Myriad decision has been almost universally hailed as a victory for patients, doctors, personalised medicine, and research. Precluding
patenting for “merely” isolated human DNA, while permitting cDNA to be patent-eligible, is seen as being a rational compromise. The US Supreme Court has thus swept away a significant barrier to patient access for BRCA gene tests and, by implication, genetic testing more generally.

This Issue

This issue covers a wide range of IP issues in the fields of US law relating to software transfer, trade marks and passing off, Australian plant varieties protection law, Hong Kong’s new unfair trade practices law, and an article on the regulatory design for knowledge protection under India’s biodiversity law, based on another paper presented at the Indigenous Knowledge Forum held in Sydney last year.

In the first article, James Zitzmann discusses the origin and basis of copyright law in the United States, its progress over time, and the history and current state of the law regarding the “first sale doctrine” and its applicability to computer software transfers. The author then analyses a comparative view of the European Union’s similar first sale rule and its implications for software transfers. The concluding section of the article offers a solution to the dilemma, by proposing a return to the original meaning of the “first sale doctrine” in accordance with the plain meaning of the US statute.

The second article, co-authored by Ed Heerey and Peter Creighton-Selvay, provides a useful overview of passing off, trade mark infringement, and misleading or deceptive conduct under the Competition and Consumer Act 2010 (Cth). The authors analyse the extent to which litigants may (or may not) still benefit from bringing an action for passing off (either in addition to, or instead of, an action for trade mark infringement or misleading or deceptive conduct). They conclude that, because of the extension of the remedies available for trade mark infringement and the flexibility of the statutory prohibition of misleading or deceptive conduct, it may well be that passing off has little meaningful legal currency in Australia, however that it can still offer some utility for a greater scope of relief in certain circumstances.

Next, we turn to the often overlooked IP area of plant varieties protection in Australia. Charles Lawson provides a comprehensive article – first, by placing the current End Point Royalty arrangements within the statutory scheme for patents under the Patents Act 1990 (Cth) and plant breeder’s rights under the Plant Breeder’s Rights Act 1994 (Cth). The author then traces the evolution of the plant breeder’s rights scheme to accommodate End Point Royalties and considers the approaches of the various Primary Industries and Energy Research and Development Act 1989 (Cth), and the Research and Development Corporations to End Point Royalties. The article concludes that, despite a series of legislative developments to enable End Point Royalties under the Plant Breeder’s Rights Act 1994 (Cth), these were not necessary and that the impetus has come from certain of the Research and Development Corporations, as a generalisation, educating growers about the benefits of End Point Royalties, assigning unique grower identifiers, streamlining contractual arrangements, and providing science-based information to growers about the growing characteristics of the End Point Royalty-protected varieties.

In one of the papers presented at the Indigenous Knowledge Forum held in Sydney last year, Kanchi Kohli analyses the regulatory design around how biological diversity and related knowledge systems are accessed and utilised in India for the purposes of research, commercialisation, utilisation or intellectual property in India. In particular, the author traces the process of drafting India’s Biological Diversity Act 2000 and notes how, after a decade-long process, it was expected that the outcome would be strong legislation for the conservation of wild and domesticated diversity as well as the knowledge associated with it.

Grace Chu then examines Hong Kong’s Trade Descriptions Ordinance, enacted in 1980, for the maintenance of trading standards and to ensure that merchandise lives up to claims made by the manufacturers and retailers of goods, in conjunction with the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012, passed on 17 July 2012, to improve on and fill in the loopholes so as to strengthen protection offered to consumers. The author notes that new offences and the enhancement of an enforcement regime under the Amendment Ordinance are likely to have substantial deterrent effect and can hopefully curb existing undesirable trade practices. Furthermore, the addition of the new civil compliance-based undertaking mechanism should provide a more effective way of law enforcement that saves time and the cost of investigation, providing the
opportunity for traders to take remedial steps before facing criminal sanctions.

This issue’s Profile features the career of New Zealand IP lawyer and patent attorney Margaret Doucas, an inspiring woman. As Sheana Wheeldon reveals skilfully, Margaret is a ground-breaker on many fronts – New Zealand’s longest serving female patent attorney, a past President of the NZIPA, and one of a handful of acknowledged New Zealand expert life sciences lawyers. Her long, indeed fascinating, professional career as a pharmaceutical patent specialist, including her involvement in many high profile cases, has been characterised by hard work, but balanced by her interests in culture, the arts and, not the least, the set-up of a Charitable Trust.

From one inspiring lady to another. It is with deep sadness that I record the recent passing of Kathryn Everett, a former Vice President of the IPSANZ Executive Committee, and a long-standing and highly regarded IP partner at Herbert Smith Freehills. I had the pleasure of interviewing Kathryn for the December 2011 Profile [Issue 87] of the journal. As on the few other occasions when I enjoyed her company, she was warm, insightful and generous with her time. In the arena of Australian intellectual property law, she was a true leader – a fine and fair litigator, as well as being vastly knowledgeable in her main areas of expertise. She will be sorely missed.

I thank all the regular correspondents to the Current Developments section of the journal, whose topical reports keep us abreast with the latest developments, here and abroad, in the world of intellectual property law.

This issue is dedicated to the memory of Kathryn Everett, a very special lady, a long-standing supporter of IPSANZ, and a great lawyer. Vale, Kathryn.

1 The CIE is a private economic research agency that provides professional, independent analysis of international and domestic events and policies.


Q: You have an LL.B. and a B.Sc. How did that come about?
A: When I joined Henry Hughes, I was studying toward my BSc. I needed to earn some money to complete it. I had never heard of patent attorney law or practice or, for that matter, even of intellectual property law, but I needed a part-time job. I saw a tiny advertisement in the Evening Post for a technical assistant looking for someone studying a science degree. That sounded like a good fit, so I applied and was given the job.

Q: So, you gained your science degree, and then went on to law?
A: Yes, both from Victoria University in Wellington.

Q: Were you already at Henry Hughes while you were still finishing your BSc.?
A: Yes. As soon as I started the work I was doing, which was basically reviewing patent specifications and amending them, I became fascinated by the nature of the work that was passing across my desk. I was privileged to see the end product information of such amazing research without having to get my hands dirty. I soon fell in love with that aspect of the work.

I was then the only one in the firm with qualifications in the subject matter relating to litigation that the firm was handling – that was the semi synthetic penicillin world-wide patent disputes, therefore I became involved in that work. At that time, all the instructions came from overseas, but I could see how interesting that type of work was, and that in order for me to be further involved in such interesting work, a law degree was essential.

Q: Did the patent attorney exams come later?
A: They did. I completed my science degree and then studied for the patent attorney exams at the same time as studying for the law degree.

Q: How many years did all that take?
A: I think about 12, perhaps less and the patent attorney exams were completed before the law studies commenced in earnest. I was enjoying my work and I had a clear goal in mind of being able to be a practising solicitor and patent attorney.

Q: So, when exactly did you first start out?
A: Well, let’s say about 30 years ago.

Q: What was the culture like in the patent attorney profession at that time?
A: At that time, there were only two other women. I recall going to my very first professional function, which was the annual patent attorney dinner at the old Midland Hotel. It was like entering a gentlemen’s club. A room full of men, lots of them smoking, most of them a lot older, and two other women. I remember us women being welcomed graciously, more as guests rather than participants, and being given a corsage. It was very formal and very elegant. These days, of course, women make up often
the majority of recently qualified patent attorneys and gatherings are more frequent and more casual.

Q: Who were the other two women?
A: Bonita Torrance and Mary Preddy. Mary Preddy was at Baldwins. She had been the secretary of the Patent Attorneys Institute for many years, and before her, Bonita Torrance of A J Park had carried out secretarial duties for the institute.

Q: Did they both end up becoming patent attorneys?
A: Yes, they did.

Q: Did you have any mentors?
A: In those days, I don't think I ever heard the word “mentor”. However, my boss, Bill Hellberg, the person who employed me, was very helpful and, when I needed a bit of extra tuition in order to help pass the patent specification drafting paper, Bill Howie of AJ Park also gave me some tuition.

Q: Do you think it was harder to make that achievement then as a female?
A: I found it very hard to pass the drafting exam because my background was biochemistry and I had no knowledge of mechanics. I found it very difficult, but I don't know if it was about being female. A lot of people still find the drafting paper difficult. I needed to learn the basic mechanical terms from text books and dictionaries. Of course, there was no internet then to assist!

Q: Let's jump ahead here. You were on the NZIPA Council, I understand, for quite some time. When was that?
A: From the mid-1980s to 1995. I was also president of the institute from 1993 to 1995 and chair of the Exam Board during that period as well.

Q: Were you the first female president of the institute?
A: I understand that Bonita Torrance was the first female President in the 1960s. I was the second.

Q: At that time, say from the mid-1980s onward, how were things different then? What were the challenges at that time for the patent attorney profession?
A: They are actually surprisingly not that dissimilar from what they are now. In the mid-1980s or perhaps a little later, while I was on the council and certainly when I was president, we spent a lot of time discussing Trans-Tasman mutual recognition and harmonisation of patent laws and, of course, the perennial new Patents Bill. And, of course, the exams! The patent attorney exams were always a very onerous part of every council's work, mainly to recruit volunteers to set and mark the papers. Interestingly, in those days the Patent Office records were not computerised but it was planned to happen and there were regular discussions of what was the best way for the institute to liaison with the Patent Office to achieve the best results with electronic records. Such matters are still alive, as are exams, and the Trans-Tasman harmonisation.

Q: Were you involved in marking those exams?
A: I was involved in setting and marking exams. In fact, at the end of my presidency I made it my mission to ensure that the future presidents would not have to be both presidents of the institute and chair to the Exam Board. That happened. It was a very onerous job to lead both bodies.

Q: Your professional career has spanned almost 30 years. Obviously, there has been a lot of change. What are your observations on the changes in the culture of the patent attorney and legal professions in that period?
A: There are a lot more women practitioners and students. That is an obvious change. The culture has kept pace with changes in society. When I started, very few members of the public knew what a patent attorney was, but our role in IP has now become more well-known. More patent attorneys have law degrees these days. When I first started, not many patent attorneys had law degrees, although they were practising in a small specialised area of the law. There probably was some tension from some in the legal profession who were sceptical about patent attorneys because they did not have law degrees.

At the outset, I was told in jest by somebody in another firm, that patent attorneys were regarded by lawyers as the chiropractors of the legal profession! I mean no disrespect to chiropractors, I go to one myself, but the implication was inescapable that we were
seen by lawyers as somehow less qualified and not particularly skilled, other than in a very small area, and that patent attorneys perhaps thought we knew more than we did. I think that attitude has changed over the years and patent attorneys generally have very good professional relationships within the legal profession.

Q: What changes have you observed on the part of clients you have worked with in that period?
A: I think our colleagues would agree that clients expect a far quicker service these days. I still remember the days of telexes and faxes. Back then, it was quite acceptable to take a few days to reply to something. In fact, sometimes weeks would pass. I can remember receiving instructions from our European clients by airmail, then we would do the work and reply and sometimes there would be a turnaround of months rather than hours, which is the case these days. Of course, that is a huge change.
As for other expectations, I think perhaps now clients expect us to know a lot more. Perhaps this is a result of the explosion of information that is available at our fingertips, and so we may be expected to have a greater awareness of a variety of subject matter and international issues than we did 20 or so years ago.

Q: As to actual day-to-day practice, what do you find has changed?
A: Interestingly, not as much as one would think. Of course, the subject matter has changed dramatically. I remember dealing mostly with new chemical entities and compositions, but these days the area of life sciences, as it is now called, covers a vast area from classical biotech industry research (such as food technology) to products of genetic engineering, an area that was not even thought about when I started practice.
Dealing with the day-to-day barrage of electronic information, the “digital tsunami”, is one of the biggest changes. From not having a computer on my desk 20 years ago, I now cannot imagine having fewer than two screens on the go, with a smartphone as backup!

Q: You have spent your whole legal career at Henry Hughes, which has to be seen as a vote of confidence in the firm. How would you define Henry Hughes’ distinguishing features?
A: Henry Hughes was New Zealand’s first patent attorney firm, named after Henry Hughes (a prolific innovator himself), an English engineer who set up the firm in Wellington in 1882. When I first started, I was the only female trainee patent attorney in the country. As soon as I realised how much I enjoyed the work, I was not going anywhere else! People didn’t change firms very much back then. You started with a firm and you often stayed there forever. I was always very happy to stay with the Firm that had supported me through years of university education and that then offered me the opportunity to be co-owner of the practice.

Henry Hughes is a friendly office without any sexist barriers. We have chosen to stay the size we are. At one stage, for a few years, we had the highest ratio of female-to-male partners and associates than any comparable firm of which I was aware. The benefit of working in such a firm for me has been the ability to progress at my own pace in a collegial environment. We have a close interaction and work as a team, and keep a friendly eye on what is happening.

Q: I know that you have been involved in some quite high profile cases over the years, including pharmaceutical patents, one of those being the fight between Bayer and Pfizer, and also Eli Lilly, back in the 2000s. Tell me a bit about your experience on that case and similar cases.
A: Such cases have been a joy to work on and, indeed, have been the highlights of my career. The Pfizer case, colloquially known as the “VIAGRA” case because of its subject matter, is fascinating to all. It was one where the litigants were engaged in disputes around the world and we were involved in the New Zealand arm of that. The fascinating aspect of being able to view the work of teams throughout the world is something that was an incredible opportunity, as was the opportunity to work closely with Brendan Brown QC, now Justice Brown.

Q: What other highlights can you recall?
In Conversation with Margaret Doucas

A: Early on in my career, my firm was acting for Beecham, as it was then, in the semi-synthetic penicillin cases. They went on for years, starting off with the ampicillin, amoxicillin and then later with clavulanic acid cases. There were subsequent patent extension cases involving some of those compounds.

Every patent extension case was a highlight and source of interesting new information. Patent extension applications gave a different fascinating insight, both into the subject matter, and to the financial evidence evaluating the impact of these substances on the population. As part of the case we had to show inadequate remuneration to the patentee and for a pharmaceutical in order to show that we had to show the effect of these substances on the general health of New Zealanders. That was fascinating to see. Patent extension cases (which, of course, are not available now in New Zealand), gave me an otherwise unavailable view into a more objective value of an invention, as is gauged by an accounting analysis.

Another more recent highlight was a patent case involving Hammar Maskin AB, which makes sidelifter (trucks fitted with hydraulic cranes to lift shipping containers onto the bed of the truck). It sued its competitor, Steelbro New Zealand Ltd, for infringement of a patent relating to a new support leg for a sidelifter. Our client, Hammar, was unsuccessful in the High Court, where Panckhurst J. determined that the patent was valid, but not infringed by Steelbro. However, the Court of Appeal overturned that decision, finding that Steelbro had infringed the patent. The case turned on the meaning of the term “a bearing”. This was actually the first time in 15 years that the claims of a New Zealand patent had been determined to be both valid and infringed. Steelbro applied to the Supreme Court for leave to appeal the decision of the Court of Appeal, but leave was not granted. I can still remember looking up the meaning of the term “bearing” when I was preparing for the drafting exams and little did I suspect the term would have such importance many years later!

Q: Do you have a view on whether we should reintroduce patent extensions of term?
A: Yes, I do. I think we should, along the lines of the extensions available in Australia.

Q: We are a little out of step on that, aren’t we?
A: We are. It is puzzling and disappointing to me that the legislature does not want to acknowledge the value that exceptional inventions have in certain areas.

Q: Do you have any advice on successfully running patent litigation?
A: Generally, my advice is to become fully conversant with the subject matter at the earliest possible opportunity. It is surprising what comes up later that may be relevant and is important to be recognised. This grasp of the subject matter is also essential to prepare a primer, which you need in order to brief other people involved in the case. It is also important to get your expert witnesses identified as quickly as possible.

Q: When you say the “subject matter”, do you mean the general field as opposed to the specifics about the patents and the prior art?
A: Yes, including the relevant market.

Q: I have noted that you are involved in a number of international organisations such as ABA, FICPI and APAA. Has this required much travelling?
A: Yes it has. More recently, I have attended the BIO conventions in the United States as this provides a venue to meet with other practitioners who work in the life sciences area of the law, in particular intellectual property law and it provides the opportunity for continued education in the subject matter. I have also travelled in the course of some cases, in order to meet inventors and tour the facilities where the products are being made and that has been wonderful.

Q: Since many IP lawyers do have networks around the world I wonder if you think we have a different world view because that is our everyday world and many of our friends are spread around like that?
A: Yes, I think we do. I think IP lawyers are staunchly pro-IP protection. It is, after all, what we do and we can see the value that it can give to the developer of new intellectual property and their community. The people we meet internationally, although they have
come from different backgrounds to us, have made the amalgam between science and law part of their lives. We therefore tend to appreciate how each other’s minds work.

Q: Do you have a view on the most interesting parts of IP law? From your own perspective, would it have to be life sciences?

A: Oh yes, it would definitely have to be life sciences. When I was at school, biology, chemistry and all aspects of science (including cooking) were the most interesting parts of the curriculum. Initially, I wanted to be a medical practitioner but that didn't work out. However, I have always very much enjoyed the application of scientific knowledge to human health in particular.

Q: What are your interests outside of work?

A: I am a passionate Wellingtonian and, as much as I enjoy travel, I always love returning home more than any other destination. I enjoy music, theatre and art. Wellington's International Festival of the Arts occupies much of my energy every second March. I also enjoy food and cooking and devising new delicious combinations. My latest creation is smoked broccoli soup, which has had rave reviews to date (although no-one can guess what is in it!).

Because of the background of my parents and mother and maternal grandmother in particular, I have always been interested in the concept of community. My grandmother escaped the genocide of Greek Christians in Turkey in 1922, and was resettled in Greece. My mother and grandmother were evacuated from Greece during the Second World War. So, they had been refugees twice over, leaving all their possessions and pets behind in the process and they became very compassionate people towards others worse off than themselves.

My interest in community work has always been to help animals and young women, namely the most vulnerable. Together with Theresa Gattung, we have set up the Eva Doucas Charitable Trust named after my late mother. For the last three and a half years the trust has operated Eva's Attic which is a boutique op shop in Wellington, with branches also now in Otaki and Tauranga. We receive premium quality goods, display them in a nice environment and get good money which is then dispersed to small groups active in the community who provide the volunteers to staff the shop. It was originally stocked with a few of my mother's treasures and my and our friends' donated items. We have since received a lot of support from the community and dispensed about $100,000 since it was set up. We also support young women in Cambodia to go through school.

Q: How did your mother's and grandmother's experience impact on you growing up?

A: A great deal really. They were immigrants, their English was not good and I was always conscious that there was a wider world out there beyond the relatively small world of mid-20th century New Zealand. They helped me to realise how lucky we are to live in New Zealand and what marvellous opportunities there are, for example educational opportunities that were available to me despite coming from a relatively low income background and that had not been available to any previous generations of my family.

Q: What about your father? Did he have a similar background?

A: Yes, he was also Greek and came to New Zealand a few years before my mother did. He died when I was relatively young.

Q: So, it was your mother and grandmother who would have been the most influential?

A: Yes, they were. Because of their experiences, they were extremely thrifty and every article of clothing or textile was recycled. They practised recycling before the word was ever much used. I can remember them on the living room floor putting any items of clothing we didn't need into big linen parcels and sewing them up and sending them off to overseas displaced persons camps. Hence, my early interest in recycling! My mother and grandmother were also role models for tenacity which you need in times of challenge, such as when embarking on a long course of study.

Q: With your full-time professional career and your charity work, and having a personal
In Conversation with Margaret Doucas

life, how do you find a balance between all these things?
A: If what you do is a joy then the balance happens naturally. You work in one area passionately following a particular interest, then you take a breather from that one, and other areas that require attention merge into your consciousness.

Q: What are your greatest achievements?
A: Being president of the Patent Attorneys’ Institute and chair of the Exam Board simultaneously. I remember that I became president in the International Year of Women 1993. I was also the first woman in Australia or New Zealand who had a science degree and a law degree and a patent attorney qualification. I think conceiving of and setting up Eva’s Attic is a personal achievement. Theresa and I looked at other models and as far as we could see we seem to be the only multi-charity op shop that has been set up specifically for a general community support purpose.

Q: Do you think it is easier for women to get ahead in the legal and patent attorney professions now?
A: Absolutely. Forty-five per cent of lawyers are now women. It is no longer remarkable for a woman to have multiple qualifications.

Q: As an overview, throughout the course of your long career what would you say have been your own personal greatest challenges?
A: I think finding the energy to persevere with long years of study and to persist, even though in the early days of my career there were some not particularly encouraging comments. Recently, Helen Cull QC and I addressed a gathering of Wellington women law practitioners and talked about our career paths. Alas, both of us reported unhelpful comments from other members of the legal profession in the course of our internships. Mine were relatively mild in that I had some comments like: “Why are you doing this?”, as one would say to someone about to swim the Pacific Ocean. My career choice was seen as questionable. So, I had a few of those sorts of comments like, ‘You are doing what? Why?”. It was interesting to see that the young women in the audience were shocked at our stories because they and their peers do not expect to be talked down to like that. It was a challenge to stay focused and to answer the questions politely, and just to keep on keeping on until I got to where I wanted to be.

Q: The implication would have been along the lines of: “What are you, a mere female, doing?”. Presumably, they would not have asked that question if you were a male?
A: That’s correct. It was because I was a female. One would not have asked that of a male then.

Q: You have said that you think it is easier for women to get ahead nowadays. What makes you say that?
A: The fact that it is not so questioned in a sexist way if a woman decides to undertake a long course of study in an area that has not been traditionally female-oriented. Further, because of the greater number of women for example in the patent attorney profession, there is the solidarity, conviviality and peer support that inevitably exists. In my day, being the only young female in my environment studying in this area, I felt quite alone at times.

Q: Then it is a cultural thing. Really, the whole world’s culture has changed actually hasn’t it that respect?
A: Yes, it has.

Q: What would you say are the challenges facing the New Zealand patent attorney profession at the moment? For example, the number of registered New Zealand attorneys has grown enormously over the years, even leaving aside the addition of the Australian practitioners?
A: I think the challenges for New Zealand patent attorneys are also the same as the Australian patent attorneys in that there is greater competition because of the international nature of our practices now. Added to that is that our services are fragmenting a bit and that the term commoditisation (a contentious term) has started to be used for some of what we do. This has caused different approaches. There is more competition and outsourcing that has changed how people view some of our work. It is not inevitable that all aspects of a project are done solely in one firm, and our overseas associates and clients in particular want to achieve whatever savings they can
by having work done in jurisdictions that provide quality work but at lower costs.

Q: Do you think this is client driven?
A: Probably so, in that clients are driven (the larger ones, in particular), by their shareholders and their boards to achieve often arbitrary cuts.

Q: Is there any advice that you would give to young practitioners starting out in IP at this time?
A: I would suggest that they have to look at their career in the IP area as being a long apprenticeship; that they are in it for the long haul, because when you start off, even if you have passed the extra examinations, it is still such a complex area. It takes quite some time actually to feel comfortable in giving advice and in knowing the right enquiries and research avenues to take. Cultivating a wide general knowledge is vital. It is our great privilege in being able to work with international clients. I would suggest that it is important to develop a knowledge of other cultures, in order to feel comfortable in many environments. It is also important to know and respect and understand all countries’ cultural expectations.

Q: How long would you say it takes to become fully fledged and able to properly advise clients without leaning on someone else?
A: Of course, it depends on the individual. I have been very fortunate to work with some amazing young people who have great insight. However, I know from my own experience, I did not feel particularly comfortable in my views and how I had reached my own conclusions for some years after I had qualified from my patent exams. In fact, it was only after I had finished my law degree that I felt confident.

Q: That then would have been a few years down the track?
A: Yes, about 10 years after qualifying as a patent attorney!

Q: And looking at our, as you have described it, “perennial Patents Bill”, do you have any thoughts on that or on any other areas where IP law is developing or where you think it should develop?
A: As I mentioned earlier, patent extensions, and optimally a greater degree of central government participation in assisting innovation for example along the lines of the UK Technology and Strategy Board.

Q: What does the UK Technology and Strategy Board do?
A: In many ways, it seeks to stimulate innovation. It offers funding at various levels, and new ways of networking, for example innovation vouchers which provide grants to businesses to work with a supplier for the first time to be used to pay for knowledge transfer from that supplier.

Q: Is there anything else you would like to add to this conversation?
A: Just that recently the composition of boards of large organisations has been the focus of scrutiny and discussion, particularly on the topic of increasing gender diversity on boards. Equally important, in my opinion, is the need for a board, particularly one that governs any research activities, to have on it persons with knowledge and experience of intellectual property!
Competing policy interests have always compelled the courts to strike a balance between protecting the author's copyright rights to benefit from their works while allowing the public to benefit from and have meaningful access to these writings and inventions. One of the most prominent and far-reaching effects of this balancing is the First Sale Doctrine, which generally prevents the copyright owner from controlling the subsequent distribution of a copyrighted work after they have transferred ownership of that copy to another person. Unfortunately, courts in the United States have been inconsistent and ineffective in applying the First Sale Doctrine protection to consumers, causing considerable confusion and leaving the purchasers of copyrighted software in a legally precarious position in regard to their ability to convey title of their copy to a second purchaser. The crux of the confusion rests in a difficulty in categorising exactly what the implications of a software transfer are – is it considered a sale of that copy of the software, a lease of that copy for a period of time, or a limited licence agreement to use the intellectual property of the software? Depending on the category that a court decides is triggered by the transaction transferring possession of the software to the purchaser, the rights and privileges of each of the parties will shift drastically, implicating either state or federal law (or both). Unsurprisingly, in the absence of a bright-line rule of any type, various court decisions have transformed a seemingly simple transfer of a type of property into a sui generis legal phenomenon, melding contradictory and incompatible concepts of property, possession, and ownership into an unworkable formula that leaves purchasers of software at a severe disadvantage in the marketplace. The practical problems of this unusual dismembering of the well-established principles of copyright are obvious even to the lay person. The idea that one does not have title translativ e of ownership in a software product purchased at a local store is foreign; a reasonable person would find it hard to imagine a manufacturer of a toaster stepping in to prevent its resale at a garage sale. Indeed, even other copyrighted materials are not subject to such strict scrutiny. Imagine a student buying a used textbook, hoping to save at least some money, only to be sued for copyright infringement because there was a discreet notice inside advising that the book was only “licensed” and could not be transferred to another party. A licensing scheme for books such as this is not allowed under the First Sale Doctrine, yet many jurisdictions give software developers free reign to restrain any second-hand or tertiary trade in products already paid for. This type of conduct undoubtedly inhibits the flow of commerce and the economic interests of the public at large.

Conversely, much of Europe, with their civil law tradition, has not had nearly the same state of uncertainty in regard to the rights of a purchaser after acquiring a copy of software, nor the same significant variance in court decisions over time. Certainly, the extent of protection afforded by the First Sale Doctrine raises certain questions in certain types of software transactions. However, courts in the European Union have confined their categorisation of a software transfer to either a sale or a lease. Any accompanying licence agreement is examined to aid in determining whether title has passed to the purchaser, but there does not exist the type of hybrid category of “licence” that US courts have created.

Part I of this article will discuss the origin and basis of copyright law in the United States and its progress over time. Part II will address the history and current state of the law regarding the First Sale

An Old Rule for a New Era: Applying the First Sale Doctrine Equitably to Software Transfers

Introduction

Ever since the inception of computer software, courts in the United States have struggled with ways to interpret how this new form of intellectual property fits into the conventional modes of protections and privileges that have been afforded to other, more conventional mediums. Specifically, the area of copyright poses new challenges in the digital era considering the very unique nature of its usage and the peculiar ways they tend to be transferred from the copyright holder to end consumers.
Doctrine and its applicability to computer software transfers. Part III will analyse a comparative view of the European Union's similar first sale rule and its implications for software transfers. Part IV will provide a solution to the dilemma, proposing a return to the original meaning of the First Sale Doctrine in accordance with the plain meaning of the statute.

Part I: Basis of Copyright Law in the United States

The framers saw fit to include copyright protection in the Constitution, reflecting on the importance and significance in promoting cultural and scientific prowess in the fledgling nation.9 The framers gave Congress the express power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”.9 Sometimes referred to as the Copyright Clause or the Intellectual Property Clause, Congress did not wait long to act on this authority and passed the first Copyright Act in 1790.10 The statute granted protection to books, maps, and charts, and it applied to works already created in the United States as well as to future ones.11 The states had regulated copyright prior to the enactment of the Constitution,12 and Congress wanted to assert its new authority to grant copyrights for limited times. This period was initially fixed at 14 years with the possibility of renewal for another 14 years if the author was still alive at its expiration.13

The inclusion of the Copyright Clause in the Constitution's final text and its implementation in the Copyright Act of 1790 suggests that, although the framers intended to promote a stronger ownership interest in copyrighted materials, this interest is limited. Congress may act to promote creative and inventive works through a monopoly on their use given to the author, but such protection is only for a limited duration, not indefinite.14 The 1790 Act was later revised in the form of the Copyright Act of 1831, which contained relatively minor revisions. This Act included the first extension in the length of copyright, from 14 to 28 years15 and, for the first time, printed musical compositions were included for protection.16

The emphasis on limited rights and public interest were further reinforced by the major revamping of the law in the Copyright Act of 1909.17 Notably, under this law, if authors published their works without a copyright notice, the work subsequently entered the public domain, and that work did not receive copyright protection.18 The House Judiciary Committee, in addressing this possibility of an otherwise protecTable work entering the public domain in this way, elucidated that the Act was “[n]ot primarily for the benefit of the author, but primarily for the benefit of the public….”.19 Courts have held that the provisions of the Copyright Act of 1909 are still relevant today for works first published during the effectiveness of the Act.20

The current source of United States copyright law is the most recent revision of the Copyright Act of 1976,21 as amended by subsequent provisions, discussed infra. The Act, in many ways, departs from the previous intentions of prior acts to err on the side of the public interest. No longer do authors need to signify their availment of copyright protection through notices in their publication, but the wording of the statute indicates that copyright affixes by operation of law when a copyrightable work is created.22 The Act additionally created many more categories that are subject to copyright that were not contemplated or in existence when previous legislation was enacted.23 The language in the statute used to define an author's exclusive rights24 is broad and capable of being interpreted to preclude the owner of a copy of a work from many uses, and courts have interpreted it as such.25 Similarly, broad language in other areas of the statute, such as those indicating what constitutes a "copy" of a work, gives the courts the opportunity to expand the applicability of copyright law in ways that may appear counter-intuitive.26 Further, the limitations of copyright appear narrowly construed in the Act. Although the defence of fair use is codified for the first time,27 the broadly defined rights of the author may have a substantial effect in negating uses that previously have been considered fair use.28

The current meaning of a "copy" of a work was codified in the 1976 Act. A copy consists of "material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device".29 As noted, the construction of what constitutes a copy is made in very inclusive language. The courts have likewise construed this broadly; permanence of fixation is not a requirement or determinative for a copy to be made.30
The 1976 Act further extended the duration of copyright for the third time since the 1790 Act by providing authors with copyright protection for their life plus an additional 50 years after their death. The Copyright Renewal Act of 1992 removed the need for authors to renew their copyright regardless of the original copyright date. In 1998, the Copyright Term Extension Act again extended the term of a copyright's effectiveness, this time to the life of the author with an additional 70 years, however it did not revive copyrights already expired.

Of seminal importance to the expanding use of technology and the internet is the Digital Millennium Copyright Act (DMCA) of 1998. The DMCA supplemented the current copyright law by tailoring its provisions to fit the dynamic nature of distribution of copyrighted materials online. Provisions exist for specific criminal and civil penalties for online copyright infringement and methods used to circumvent copyright protection, primarily on digital mediums. The DMCA’s most notable feature is its “safe harbour” provision, which allows certain online service providers (OSPs) to avoid infringement penalties if they adhere to certain guidelines and remove infringing material once it is found. If a copyright owner finds his material was uploaded to an OSP, he must send a takedown notice to the OSP to remove the material. The OSP must immediately remove the content, but the end user that uploaded the content may then send a “counter-notice” to the OSP, certifying that the content is not an infringement on the owner’s rights. Unless the owner seeks to file a complaint in court, the content is restored after a waiting period.

Although the idea of a safe harbour is not new, the rigid structure of the DMCA’s provisions have offended both copyright owners and users of copyrighted materials.

Part II: The First Sale Doctrine in the United States

When one owns property, that person can use that property to the exclusion of others and dispose of it as the person wishes, through sale or otherwise. Copyrighted works, however, present a unique situation where the purchaser acquires title to that particular copy of the work, but the purchaser does not acquire any of the exclusive rights that the copyright owner enjoys. Because of this dichotomy, if the purchaser then proceeds to transfer ownership in that copy to another, the purchaser has arguably violated the author’s exclusive right of distribution.

In Bobbs-Merrill Co. v Straus, the Supreme Court considered the competing ownership interests that are highlighted by this dichotomy. Bobbs-Merrill Co. published a book with a notice printed inside advising that the book was not to be sold for less than one dollar and that doing so would constitute copyright infringement. The defendant, a wholesale dealer, purchased these books and sold them for less than the required price. The Court held that, although the Copyright Act gave the author the right to “vend” the books, the Act did not create restrictions allowing him to control the use or disposition of the books after transferring title. In dicta, the Court noted that there was no contractual privity that would limit the books’ use, leaving open the possibility of a contractual remedy had there been an agreement.

In this decision, the Court created what has become to be known as the First Sale Doctrine. The raison d’être for this significant concept is limiting the exclusive rights of an author once a transfer of ownership of a copy takes place. Once one owns a copy of a copyrighted work, the owner is free to convey title to that copy to someone else without infringing the author’s right to distribution. However, none of the incorporeal rights of copyright pass to the purchaser unless expressly given by the author. The current revision of the doctrine is codified in the Copyright Act of 1976:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorised by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

The provision appears clear in its objective to limit further controls on the copy by the author by advising that the purchaser is “entitled” to sell the copy. In view of this provision, the drafters of the legislation provided that the legislation was not intended to interfere with the author’s ability to impose contractual limitations on the first purchaser, such as a limitation on the resale of the copy. Although the resale prohibition is unenforceable under a federal action for copyright infringement, the author may still be afforded a state breach of contract remedy, if available.

Importantly, only the “owner” of a copy has the ability to dispose of that copy. Possessors that
have rights less than ownership may not transfer that copy to another since the author still retains title to it. If the transfer of the copy is a mere lease, rental, or loan, or if the copy is stolen or converted, the author still retains the right to control its distribution. The question that then begs itself is whether the author parted with the title, which would constitute a transfer of ownership, or whether the author has simply allowed physical possession of it, expecting to retain their ownership interest. In *Bobbs-Merrill Co.*, the publisher of the book stipulated that they had in fact sold the books. What is the result if the author asserts they never did transfer ownership?

In *United States v Wise*, the defendant was convicted of multiple counts of criminal copyright infringement for selling full-length movie reels. These reels were licensed to different entertainment and production venues for limited purposes and for limited times, and the defendant somehow acquired these reels and sold them via mail order. In overturning one of the convictions, the Court noted that, although there was a licensing scheme for one of the reels, the transferee was actually entitled to keep the reel perpetually. The ability of permanent possession by the transferee signified that this was a type of sale. This case is considered a precursor to later disputes regarding the ever-increasing practice of a copyright owner purporting to retain title in a transferred copy, and it is still referenced.

In a more recent case, *UMG Recordings, Inc. v Augusto*, the Court decided a similar First Sale Doctrine issue in regard to promotions CDs. UMG had a practice of sending promotional music CDs to various radio stations and music critics. UMG acquired some of these promotional CDs and sold them online. UMG then filed suit for copyright infringement, alleging that they had retained title to the CDs. Siding with Augusto, the Court held that the promotional CDs were sent without retaining control over them or even keeping track of their status once shipped. Further, the licence could not be binding since no evidence indicated that the recipient had accepted it. Although there was not a “sale” here in the strictest sense, any transfer of title is sufficient to trigger the First Sale Doctrine.

Generally, the courts have given force to the First Sale Doctrine when the medium containing the copyrighted work is a more conventional or traditional type. However, when the dispute involves computer software, courts have been much less decisive than they have with traditional media in deciding not only when the First Sale Doctrine applies but also exactly how to determine this. As with any copy of a copyrighted work, the sale of a copy of computer software involves three distinct features. First is the sale of the medium that contains the work, which is usually a CD or a DVD. Second is the sale of the copy of the work itself that is in the form of the source code that a computer will need to execute. Last are the exclusive rights such as that of reproduction or public display that do not pass with the copy of the software, but which may be assigned or licensed by the author. Absent this type of express assignment, these rights remain with the author. For example, a book contains the relatively inexpensive medium of the ink and pages, the intellectual property of the unique work that is embedded in the pages, and the exclusive rights of reproduction, distribution, public performance, and the like that the author enjoys regarding their work.

These distinctions become particularly important for the dissemination and use of software because of its unique features compared with other types of copyrighted materials. In order for the purchaser to use the software, the purchaser necessarily must create at least one additional “copy” of the program. For example, the user may install the program on his hard drive. Absent this, their computer will at least copy some or all of the software into its RAM memory. If a purchaser were to subsequently sell their copy of the software, the possibility exists that the residual copy will remain on their computer, which can be construed as a violation of the author’s reproduction rights. This was seemingly rectified by s.117 of the *Copyright Act* which allows for the owner of a copy of computer software to make additional copies if it is necessary for the utilisation of the program, or for repair, maintenance, or archival purposes. However, the provision has been narrowly construed and often overlooked or ignored.

In *MAI Systems Corp. v Peak Computer, Inc.*, Peak Computer performed maintenance and repair services for users of MAI computers. Several MAI employees left the company to work for Peak Computer, and a number of clients switched their maintenance services from MAI to Peak Computer. MAI filed suit for copyright infringement, alleging that during the repair services, an unauthorised copy of their software was
made into the RAM memory of the computer.\textsuperscript{67} Although licence agreements entered into by end users with MAI allowed them to make a copy for personal use, MAI alleged that Peak Computer could not because they were not the licensee.\textsuperscript{68} Deciding in favour of MAI, in one non sequitur after another, the Ninth Circuit looked at the agreement with the software transfer, which was termed a “licence agreement”.\textsuperscript{69}

The Court made no attempt to determine whether any of the terms of the agreement actually made it a sale in disguise but relied entirely on the self-wording of the title. Therefore, infringement would be found in similar circumstances unless the agreement was titled as a “sales agreement” or a “purchase agreement”. The decision centred on Peak Computer not meeting the safe harbour requirements under s.117, which requires that the copy be made only as an essential step in using the program.\textsuperscript{70} However, the Court stated in a footnote that this determination by the lower Court did not even need to be made because only “owners” of a copy are entitled to s.117 protection, and Peak Computer was not even an owner.\textsuperscript{71}

A court in the Eighth Circuit espoused a similar view in Davidson & Assoc., Inc. v Internet Gateway, Inc.\textsuperscript{72} in interpreting End User License Agreements (EULA). Davidson & Associates, doing business as Blizzard, created a service called Battle.net for facilitating multiplayer gameplay across the internet for games they also published.\textsuperscript{73} Battle.net sometimes had service outages that became problematic for users, so a group of users created a similar service that would allow multiplayer gaming with Blizzard's games.\textsuperscript{74} In order to achieve this connectivity, they had to create a copy of the game and reverse engineer the programs contained therein.\textsuperscript{75} Blizzard brought suit for infringement, alleging that the EULA in each of their software programs prohibited reverse engineering.\textsuperscript{76} The defendants argued that when they purchased the game, they did not agree to the EULA, and forcing them to agree to additional terms after they already owned the software would be unconscionable.\textsuperscript{77}

In its reasoning for enforcing the agreement, the Court noted that purchases were not sales but rather purchases of a licence.\textsuperscript{78} They only bought a license to use the software and did not own the same outright. Printed on the outside of the package was notice of the EULA, and agreement was required prior to installation.\textsuperscript{79} Thus, the terms of the agreement bound the defendants even if relevant copyright law would permit certain activities otherwise if the agreement had been deemed a “sale”. This was affirmed by the Eight Circuit Court.\textsuperscript{80}

However, not all courts have given this level of consideration to EULAs, particularly in terms of its characterisation of the transaction as a licence rather than a sale. In SoftMan Products Co. v Adobe Sys. Inc.,\textsuperscript{81} SoftMan acquired a packaged collection of software that was published by Adobe and sold each of the individual programs contained in the suite separately.\textsuperscript{82} Adobe alleged infringement of its copyright based on the fact that the software enters the market as a licence to use it, and that licence prohibits the resale of the individual parts of the suite.\textsuperscript{83} SoftMan invoked the First Sale Doctrine as permitting their individual sales after Adobe had transferred title in a first sale.\textsuperscript{84}

The Court differentiated between the EULA that constituted a contractual agreement between the publisher and the first purchaser and the right to resell the First Sale Doctrine affords, disagreeing with the proposition that a licence could preempt third party rights under copyright law.\textsuperscript{85} The transfer of the “licence” was actually a sale of the copy considering that the purchaser paid a single price for a single copy, and the licence term was to be indefinite.\textsuperscript{86} SoftMan never did install the software or assent to the terms, so it could not be bound.\textsuperscript{87} The EULA could be a binding contract between Adobe and the purchaser if the purchaser had agreed to it, but the Court did not reach enforceability in this context.\textsuperscript{88}

A Texas District Court in the Fifth Circuit reached a similar conclusion in Novell, Inc. v CPU Distrib.\textsuperscript{89} Novell had a practice of distributing its software though original equipment manufacturers (OEM) who distributed it to end users by bundling it with hardware.\textsuperscript{90} After acquiring copies of Novell software from OEMs, CPU subsequently resold them unbundled.\textsuperscript{91} Novell contended that provisions in a licensing agreement with the OEMs reserved title in these copies to them.\textsuperscript{92} The Court rejected this, reasoning that, although a provision of the licence purported to retain title in the copies for Novell, the agreement included terms such as “sell” and “resell” in referring to how the OEM was to distribute the software.\textsuperscript{93} Further, the risk of loss shifted to the OEMs once Novell delivered the software copies.\textsuperscript{94} By retaining “all intellectual property rights,” Novell simply retained those exclusive rights that are granted to authors by virtue
Three factors are determinative for whether the transfer was a sale or simply a licence to use the software: (1) whether the copyright owner states they are only granting a licence, (2) if the agreement contains restrictions on transferring the software; and (3) whether the use of the software is significantly restricted. Because all three of these elements were present in the licence for AutoCAD, the transfer was of just a licence to use. The Court recognised that serious policy implications in the ruling would affect both software manufacturers and consumers alike and invited Congress to amend the Copyright Act if they feel the First Sale Doctrine should apply separate and apart from any licensing scheme. Since there was no sale between AutoCAD and the first purchaser, Vernor could not benefit from First Sale protection and could be held liable under the Copyright Act. The effect of this decision is again to sidestep the original, broad protections that the First Sale Doctrine was attended to afford purchasers.

The current sentiment of the courts in regard to software transfers and the First Sale Doctrine are decidedly adrift. Over time, they have struggled with how to reconcile the exclusive rights of the copyright holder with the first-sale policy of promoting public access and availability of these software copies. The trend is toward treating licence agreements as able to displace the First Sale Doctrine through a contractual arrangement with restrictions even applying to third parties. However, not all courts have agreed with this mantra, and all have been unsuccessful in reaching a common conclusion on exactly how to evaluate these licences.

Part III: The European Union and Exhaustion of Rights

In Europe, the European Community (EC) Software Directive governs copyright protection regarding computer software. Every country within the EC has substantially adopted the provisions therein. The European version of the First Sale Doctrine, often referred to as exhaustion of rights, is contained in this Directive. The rightholder has the exclusive rights as enumerated:

\[A\]ny form of distribution to the public, including the rental, of the original computer program or of copies thereof. The first sale in the Community of a copy of a program by the Copyright holder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception
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of the right to control further rental of the program or a copy thereof.\textsuperscript{114}

The EC version of the doctrine does not differ substantially from the US version of the same. The Article does not mention any further information on what constitutes a sale of a copy, nor does the Article mention how a licence might affect this right.

In accordance with the EC Software Directive, Germany adopted the exact same provision in their Copyright Act.\textsuperscript{115} Along with the US, Germany is among the leading countries in case decisions involving the resale of software. Notably, the Federal Court of Justice\textsuperscript{116} has decided several cases regarding exhaustion of rights for software,\textsuperscript{117} while the US has none at the Supreme Court level.

German courts have similarly been faced with interpreting licence agreements in view of the exhaustion principle, but early decisions regarding licensing have provided courts with more guidance of interpreting software licences. The Federal Court of Justice decided a case in 1987 regarding whether there was a sale of software for the purpose of implied warranties.\textsuperscript{118} The agreement transferring the software did not purport to be a sale, so the Court considered whether it was indeed a sale or just a lease.\textsuperscript{119} Since the software was transferred indefinitely for a one-time payment, it could not be a lease and must be a sale for that purpose.\textsuperscript{120}

Perhaps even more significant was a case in 1989 where the Federal Court of Justice found a software transfer to be a sale because the software was to be kept permanently even though the payment was to be made in instalments over a three-year period.\textsuperscript{121} Although the software was to be delivered online, and there was a periodic payment plan, the transfer was essentially just for a sum certain without any time limitation on its use.\textsuperscript{122}

Unsurprisingly, German courts were similarly amenable to construing agreements as sales in an exhaustion doctrine context. In a 1998 case in the Court of Appeals, a software manufacturer attempted to transfer a software copy with a licensing agreement stating the software was non-transferable.\textsuperscript{123} The manufacturer programmed the software to expire unless the manufacturer extended the time as a way to ensure the software could not be transferred effectively; the extension of time was based on the continuing use of the software by the original user.\textsuperscript{124} The software was sold to a third party, and the software expired. When the third party asked the manufacturer to remove the timing mechanism the manufacturer refused and filed for injunctive relief to prevent its use.\textsuperscript{125} The Court ruled that the agreement actually was a sale because of a one-time payment for indefinite use.\textsuperscript{126} The manufacturer’s rights were exhausted after the transfer despite any wording in the licence.\textsuperscript{127} The conclusion was that the timing mechanism would have to be removed since it interfered with the third party’s ownership rights.\textsuperscript{128}

The Federal Court of Justice issued a landmark decision in 2000 regarding OEM software transfers.\textsuperscript{129} Microsoft had entered into licence agreements with OEM manufacturers, providing that copies of MS-DOS and Windows accompanying the computers the OEMs manufactured could only be sold together with the computers.\textsuperscript{130} The idea was for Microsoft to transfer the software to the OEM at a discount, and this would increase the incentive of the OEM to install Microsoft’s products on their machines instead of another producer’s products, thus increasing market share.\textsuperscript{131} A third party acquired an OEM version of this software from a distributor that had such an agreement with Microsoft and resold them without the original equipment.\textsuperscript{132} Overruling the lower Courts, the Federal Court of Justice held that Microsoft’s rights had been exhausted after the sale to the distributor.\textsuperscript{133} The rationale here was that, although it was true that Microsoft could create restrictions on the rights of its distributors, if the distributors transferred the software copies in accordance with the restrictions, such rights at that point would have been exhausted. A third acquirer would be now free of such restrictions.\textsuperscript{134} Thus, if the contract between a software producer and the first acquirer is technically fulfilled, the transfer of title to a subsequent purchaser is valid and free of restrictions.\textsuperscript{135}

The Netherlands has incorporated a first sale rule in its copyright law, the same exhaustion of rights of the EC Software Directive.\textsuperscript{136} In 2002, the Court of First Instance in The Hague ruled on a case where a purchaser acquired flight simulator software from a bankruptcy estate; he had not agreed to the EULA accompanying it.\textsuperscript{137} Surprisingly, in its decision the Court noted that, although he did indeed own the physical copies, he was not entitled to use the software whatsoever.\textsuperscript{138}

Recently, in 2010, the Court of First Instance of Dordrecht recognised the validity of the transfer of software that was already installed on computers. The first purchaser bought the computers with
the software installed from a distributor with a licence restricting the first purchaser from making the software available to third parties.\(^1\) A second purchaser bought the computers for his business.\(^2\) The Court decided that, if the second purchaser is a “lawful acquirer” of the software, that person is entitled to use it in its normal use.\(^3\) When the distributor transferred the computers with the software, they became a “lawful acquirer” under the Dutch Copyright Act, and the distributor’s right of distribution had been exhausted.\(^4\) Since the first purchaser was a “lawful acquirer,” any subsequent purchasers also would be.\(^5\) The licence agreement was immaterial for copyright purposes, but it may have effect under contract law.

France also has an exhaustion doctrine modelled off of the EC Software Directive. Their rulings correspond equally with those of Germany and The Netherlands. In 1996, a court ruled on the effect of EULAs on secondary transferees of software. Microsoft was not able to rely on copyright law to enforce certain restrictions on purchasers, such as requiring them to have an earlier version of the software.\(^6\) The Court directly ruled that those types of contractual agreements do not affect rights under the exhaustion doctrine at all.\(^7\) However, in 2009, a court limited the applicability of the doctrine to the original medium on which the copy of software was contained.\(^8\) Even if the right to distribution was exhausted, the EULA prohibited the first purchaser from effecting a sale by copying the program from one hard drive to another.\(^9\)

Given the complex legal nature of the First Sale Doctrine and the particularities of software use and transfer, a wide divergence of legal opinion between countries in the US and the EC has occurred. The current trend in the EC is towards greater market freedom and public access by allowing subsequent sales to be governed by the exhaustion of rights principle, while the trend in the US has been one of greater restrictions on resale by allowing manufacturers to contractually negate the First Sale Doctrine.

**Part IV: Restoring the First Sale Doctrine in a Software Context**

Perhaps one of the critical issues in applying the First Sale Doctrine to software transfers is the reconciliation of state law and federal law on the two separate aspects that are involved in a software transfer. State law governs sales and contracts, but copyright is exclusively controlled by federal law. Certainly, no one would seriously argue that two parties are not free to enter into a contractual agreement with each other where one party gives up certain rights in lieu of real benefits. On the other hand, the proposition that myriad restrictions and limitations can attach to the transfer of an item when the purchaser has paid full market price and retains physical possession of the thing seems offensive. Consumers do not expect their rights in the software to be so limited. A shopper walks into a local Wal-Mart and selects items for purchase, including a DVD, a 2-litre bottle of Coca-Cola, and a word processing software program. Surely, the question of the ability of the shopper to resell the DVD or the 2-litre bottle of Coca-Cola would be moot, yet they both include copyrighted materials. The answer to this question, however, is unclear and may depend on what jurisdiction the shopper lives in.

First, a clear distinction must be made between the modalities of the software’s transfer and any underlying agreement or licence that accompanies it. Considering the clear wording of the Copyright Act that an owner is “entitled” to resell the copy creates an affirmative right. If the transferee of the copy can be established as the “owner,” then that person is free to convey title to that copy as a matter of federal law regardless of any restrictions attached to it. However, contractual agreements must be able to have an effect as well, which is measured under applicable state law. Fortunately, room exists for both sets of laws to have effect, as the drafters of the 1976 Act would likely to have agreed.

Regrettably, the Copyright Act does not define “owner” in the context of the owner of a copy.\(^10\) However, a commercial context requires an exchange of money for the ability to use the software in some capacity. To become the owner, the transferee will need to exchange his price for a title that is translatable of full ownership in the copy. Very frequently software manufacturers will style this type of transfer as a licence to use the software rather than the sale of the copy itself. However, the true effect of a licensing agreement in respect to whether a first sale has occurred must be limited to ascertaining the intent of the parties. As some courts have erred in holding, the true intent of the parties is not necessarily reflective of what the agreement avers to be. The expectation of the purchaser, especially in a non-commercial context, is likely that the purchaser will acquire ownership of the copy that they can dispose of as they please. In examining software licensing agreements, many
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Manufacturers are clearly attempting to gain all of the benefits of a sale while also attempting to retain all of the benefits of ownership with respect to the Copyright Act.

The European model is much simpler in its application in court, and there is an adherence to the legislative intent in drafting the statute. However, software manufacturers may be burdened by not only not being able to prohibit the resale of the copy but not being able to make any contractual licence regarding the copy at all. European courts generally give no weight to software licensing agreements in a copyright context, and certain national laws are strictly construed against such licenses as overreaching in even a contractual context. The distinction between the licence agreement that accompanies a sale and the fact of the sale itself is an important one. This type of simple approach, however, is instructive in creating a consistent application of the First Sale Doctrine while still affording the manufacturer some contractual remedies.

The determination of a sale by weighing factors that would reasonably and inevitably lead to the impression that a sale of the copy of the software has been made would be a fair standard. Under this test, a manufacturer receives a single, one-time payment in exchange for an indefinite possession of the copy which would generally constitute a sale for purposes of the First Sale Doctrine as has been the case for other copyrighted works. If periodic, continuing payments were required or if they software was to be returned or destroyed after a certain period of time, this would be more indicative of a lease or rental. Is the purchaser reasonably expecting to receive rights transitive of ownership, and is the seller receiving the same level of benefit as they would in a sale?

Once the court establishes the transfer as a sale, the court next applies the residual effects of the contractual licensing agreement. If the original purchaser transferred title to their copy in contravention of an enforceable licence agreement, then the manufacturer could seek damages against the purchaser for breach of contract, and perhaps under other theories, under the governing state law. However, given the express wording on the First Sale Doctrine, since the owner is entitled to resell the copy, this would pre-empt any private contractual agreement based on state law as a matter of public policy. “Entitled” means a right to do as opposed to just an ability to do. Thus, the First Sale Doctrine is not a default rule that can be derogated from by contractual agreement but it is an obligatory rule.

The level of enforceability will depend on the facts and circumstances of the individual case. If the licence terms are printed on the surface of the package, they may be enforceable between the manufacturer and the first purchaser insomuch as assent can be given by this type of tacit acceptance under state law. If the terms of the licence are inside the box or displayed before the program is installed, they will not be enforceable as to the purchaser unless the purchaser does expressly assent; the sale of the copy has already been perfected. Certainly, the manufacturer can require the purchaser to assent to gain access to certain add-on services and features relating to the software, but the purchaser cannot be bound if they do not wish to be bound.

One of the main concerns of software manufacturers (and also expressed by some commentators and courts) is the possibility of a purchaser reselling their copy of the software but still retaining and using the copy that has been installed on their computer. This argument has no merit in justifying the negation of the First Sale Doctrine. All copyrightable works are susceptible to reproduction by a purchaser – CDs and DVDs can easily be copied or their contents transferred to a digital storage device and then sold, and even books can be photocopied or scanned and then resold. The possibility of a bad faith act such as this does not diminish a purchaser’s ownership interest in the lawful copy they possess. An appropriate remedy for this might be an action for civil or criminal copyright infringement, which is readily available and used in non-software contexts. The author has specific rights under the Copyright Act, and mechanisms and remedies are already in place to address such issues.

In essence, the current interpretation of exhaustion of rights in Europe and of the First Sale Doctrine in the US are melded together to restore an equal balance between consumer and purchaser interests and manufacturer and author interests. However, from another perspective, the proposed balancing test, in abstraction, applies the original meaning of the First Sale Doctrine to software as it applies to other media.
Conclusion

Returning to the original understanding of the First Sale Doctrine and applying this understanding will provide the most adequate balance of interests, both business and consumer, public and private. Licensing agreements will be enforceable under state law, allowing software manufacturers to protect their economic interests, but declaring restrictions on sale as invalid as pre-empted by the federal First Sale Doctrine will promote public availability of works and the flow of commerce. The drafters of the Copyright Act were not intending to protect the monopoly of an author so much as to restrict free trade and preclude the ownership of copies. Providing some clarity for the application of the First Sale Doctrine for software transfers will help to maintain the balance between an author’s economic interests and the incentive to create and providing the public not only with wider access to using these works but also respecting their property interest in the copies that they invest in.

The maintenance of the First Sale Doctrine in the digital era is crucial to ensuring its continued vitality and meaningfulness for the future when new mediums will be developed to distribute copyrighted works. The fact that its safety is currently threatened may affect the public’s ability to have access to protected works in all types of media. Consequently, if copyrighted works are too burdensome or impractical to obtain or use, this will inevitably hurt the economic interests that manufacturers are currently seeking to protect.

3 Lothar Determann, Aaron Xavier Fellmeth, “Don’t Judge A Sale by Its License: Software Transfers Under the First Sale Doctrine in the United States and the European Community”, 36 U.S.F.L. Rev. 1, 27-28 (2001). The determination of whether a software transfer is a “sale” or a “license” implicates other areas of law besides copyright considerations, such as determining whether to apply the principles of the Uniform Commercial Code state sales law to a dispute and in determining sales tax, among others. This means that a transfer might be a “sale” for one purpose but a “license” for another.
4 Harrison v Maynard, Merrill & Co., 61 F. 689, 691 (2d Cir. 1894). “But the right to restrain the sale of a particular copy of the book by virtue of the copyright statutes has gone when the owner of the copyright and of that copy has parted with all his title to it, and has conferred an absolute title to the copy upon a purchaser, although with an agreement for a restricted use.”
5 Determann and Fellmeth, supra n3, at 105. German courts apply a stricter interpretation of their first sale rule that allows software transfers to be categorized as sales in accordance with the reasonable expectations of a purchaser.
6 ibid.
7 ibid.
9 See MAI Sys. Corp. v Peak Computer, Inc., 991 F.2d 511, 519 (9th Cir. 1993) (when a computer program is loaded into RAM memory, this is a copy for purposes of the Copyright Act). This case is discussed in further detail, supra.
14 ibid.
16 Harrison v Maynard, Merrill & Co., 61 F. 689, 691 (2d Cir. 1894). “But the right to restrain the sale of a particular copy of the book by virtue of the copyright statutes has gone when the owner of the copyright and of that copy has parted with all his title to it, and has conferred an absolute title to the copy upon a purchaser, although with an agreement for a restricted use.”
18 Grynberg, supra n25, at 498, n22.
20 See Midway Mfg. Co. v. Arctic Intr Intr., 794 F.2d 1009 (7th Cir. 1983) (video game demos become fixed even if they are stored only momentarily in the system’s memory).
28 United States v Wise, 550 F.2d 1180 (9th Cir. 1977).
29 UMG Recordings, Inc. v. Augusto, 628 F.3d 1175 (9th Cir. 2011).
30 id. at 1177.
31 id. at 1177-1178.
32 id. at 1178.
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Trade Marks and Passing Off – Has the Old Tort Passed On?

Introduction

The tort of passing off seeks to protect goodwill. It has adapted to meet new circumstances and to restrain a broad range of conduct. Nevertheless, the question remains: in light of legislative reform, has the old tort passed on?

This article provides an overview of passing off, trade mark infringement, and misleading or deceptive conduct, and analyses the extent to which litigants might still benefit from bringing an action for passing off (either in addition to, or instead of, an action for trade mark infringement or misleading or deceptive conduct).

Has the old tort passed on? The present diagnosis is that passing off has little meaningful work to do in Australia, due to the extension of the remedies available for trade mark infringement and the flexibility of the statutory prohibition of misleading or deceptive conduct. But reports of its death are exaggerated; it retains an ongoing utility for enlivening a greater scope of relief in certain circumstances.

Overview of Passing Off

The three elements which must be proved to establish passing off were identified by Lord Oliver in Reckitt and Coleman Products Ltd v Borden Inc (Reckitt):1

The law of passing off can be summarised in one short general proposition – no man may pass off his goods as those of another. More specifically, it may be expressed in terms of the elements which the plaintiff in such an action has to prove in order to succeed. These are three in number.

First, he must establish a goodwill or reputation attached to the goods or services which he supplies in the mind of the purchasing public by association with the identifying get-up (whether it consists simply of a brand name or a trade description, or the individual features of labelling or packaging) under which his particular goods or services are offered to the public, such that the get-up is recognised by the public as distinctive specifically of the plaintiff’s goods or services.

Secondly, he must demonstrate a misrepresentation by the defendant to the public (whether or not intentional) leading or likely to lead the public to believe that goods or services offered by him are the goods or services of the plaintiff. Whether the public is aware of the plaintiff’s identity as the manufacturer or supplier of the goods or services is immaterial, as long as they are identified with a particular source which is in fact the plaintiff. For example, if the public is accustomed to rely upon a particular brand name in purchasing goods of a particular description, it matters not at all that there is little or no public awareness of the identity of the proprietor of the brand name.

Thirdly, he must demonstrate that he suffers, or, in a quia timet action, that he is likely to suffer damage by reason of the erroneous belief engendered by the defendant’s misrepresentation that the source of the defendant’s goods or services is the same as the source of those offered by the plaintiff.

Although a number of variations on this test have been expressed,2 it was recently endorsed in Peter Bodum A/S v DKSH Australia Pty Ltd.3

The tort of passing off has evolved to meet new circumstances. In Campomar Sociedad Limitada v Nike International Ltd,4 the High Court noted that:

The tort of passing-off is but one of the greatly differing contexts in which the courts have been called on to define and identify the nature of goodwill. The injuries against which the goodwill is protected in a passing-off suit are not limited to diversion of sales by any representations that the goods or services of the defendant are those of the plaintiff. In Spalding itself, the misrepresentation was that one class of the plaintiff’s goods was another class. In more recent times there has been development both in the nature of the “goodwill” involved in passing-off actions and in the range...
of conduct which will be restrained. In Moorgate Tobacco, Deane J spoke with evident approval of:

"…the adaptation of the traditional doctrine of passing-off to meet new circumstances involving the deceptive or confusing use of names, descriptive terms or other indicia to persuade purchasers or customers to believe that goods or services have an association, quality or endorsement which belongs or would belong to goods or services of, or associated with, another or others".

As part of its evolution, the tort has shed any requirement that there be a “common field of activity” between the activities of an applicant and defendant. Further, in light of improvements in communications technology and international travel, it has been held that an applicant with no business in Australia and no local trade may nevertheless succeed in an action for passing off.

The nature of the conduct which has been held to constitute passing off in Australia has, arguably, extended beyond the “general proposition” identified by Lord Oliver in Reckitt. For example:

(a) In Pacific Dunlop Ltd v Hogan & Ors, the respondent was held to have engaged in passing off in its advertising for shoes, which drew on the striking “knife scene” scene from the film Crocodile Dundee. This was so even though neither of the applicants (the actor who played the role of the fictional character Crocodile Dundee and the maker of the film) had ever engaged in the manufacture or sale of shoes.

(b) In Twentieth Century Fox Film Corporation & Anor v South Australian Brewing Co Ltd & Anor, the respondents were held to have engaged in passing off by marketing a new beer branded Duff Beer, which the applicants had used as the name of an imaginary beer in the animated television series The Simpsons.

(c) In Sydneywide Distributors Pty Ltd & Anor v Red Bull Australia Pty Ltd & Anor, the respondents were held to have engaged in passing off by importing and selling a new energy drink which adopted the “total imagery” of the applicants’ “Red Bull” energy drink, even though the respondents’ energy drink was clearly labelled “LiveWire”.

(d) In Telstra Corp Ltd & Anor v Royal & Sun Alliance Insurance Australia Ltd & Anor, the respondents were held to have engaged in passing off by using the fictional character Mr Goggomobil in advertising for insurance services, on the basis that Mr Goggomobil had become a form of secondary branding for the Yellow Pages as a result of the use of that character by the applicants in television advertising.

(c) In Peter Bodum A/S & Ors v DKSH Australia Pty Ltd, the respondent was held to have engaged in passing off by distributing and selling a coffee plunger which adopted the distinctive shape and features of the applicants’ Bodum Chambord Coffee Plunger, even though the respondent’s coffee plunger was branded (on its box as) “Euroline” and not “Bodum” and much of the applicants’ advertising of its own coffee plunger had featured the use of the “Bodum” brand name.

However, one common requirement, running through all of these cases, is that an applicant must prove a requisite reputation in the jurisdiction to establish passing off. This is because, as Tamberlin J held in Hansen Beverage Company v Bickfords (Australia) Pty Ltd:

The tort of passing off is designed to protect the property and goodwill of a business. It is only available where an applicant can show goodwill or reputation in relation to the name or get-up of his or her goods or services because they have become distinctive of his good or services in a particular market.

Although an applicant does not necessarily need to establish an exclusive reputation to succeed in an action for passing off, it has been held that an applicant must prove, at a minimum, that a “significant” or “substantial” number of persons within the jurisdiction are aware of the applicant’s brand or product.

Overview of Trade Mark Infringement

Part 12 of the Trade Marks Act 1995 (Cth) (TMA) prescribes the circumstances in which a registered trade mark will be infringed.

Under s.120(1) of the TMA, a person infringes a registered trade mark if the person uses as a trade mark a sign that is substantially identical with, or
deceptively similar to, the trade mark in relation to goods or services in respect of which the trade mark is registered.

Under s.120(2) of the TMA, a person infringes a registered trade mark if the person uses as a trade mark a sign that is substantially identical with, or deceptively similar to, the trade mark in relation to goods or services of the same description as, or closely related to, those in respect of which the trade mark is registered. However, a person will not infringe a registered trade mark under s.120(2) if they establish that using the sign as they did is not likely to deceive or cause confusion.

Under s.120(3) of the TMA, a person infringes a registered trade mark if the person uses as a trade mark a sign that is substantially identical with, or deceptively similar to, a trade mark that is well known in Australia in relation to unrelated goods or services, if that use of the sign would be likely to be taken as indicating a connection between the unrelated goods or services and the owner of the registered mark and, for that reason, the interests of the registered owner are likely to be adversely affected.

Accordingly, whilst ss.120(1)-(3) of the TMA each provide for trade mark infringement in different circumstances, the following are elements of every trade mark infringement action:

(a) The applicant has a registered trade mark.
(b) A sign is being used by the respondent “as a trade mark”.
(c) The sign is substantially identical with, or deceptively similar to, the applicant’s registered trade mark.

Use of a sign “as a trade mark” involves “use as a ‘badge of origin’ in the sense that it indicates a connection in the course of trade between goods and the person who applies the mark to the goods”. Use of a sign for a purpose such as describing the characteristics of goods or services, or comparing the applicant’s goods or services to the respondent’s goods or services, will not be deemed to be use “as a trade mark”.

The term “substantially identical” is not defined in the TMA. The seminal definition of the term was provided by Windeyer J in Shell Co of Aust Ltd v Esso Standard Oil (Aust) Ltd:

"They [the marks] should be, I think, compared side by side, the similarities and differences noted and the importance of these assessed having regard to the essential feature of the registered mark and a total impression of resemblance or dissimilarity that emerges from the comparison."

In contrast, s.10 of the TMA provides that a trade mark is taken to be deceptively similar to another mark if it "so nearly resembles that other trade mark that it is likely to deceive or cause confusion". In Australian Woollen Mills Ltd v F S Walker & Co Ltd, Dixon and McTiernan JJ explained how to assess deceptive similarity:

"In deciding this question, the marks ought not, of course, to be compared side by side. An attempt should be made to estimate the effect or impression produced on the mind of potential customers by the mark or device for which the protection of an injunction is sought. The impression or recollection which is carried away and retained is necessarily the basis of any mistaken belief that the challenged mark or device is the same. The effect of spoken description must be considered. If a mark is in fact or from its nature likely to be the source of some name or verbal description by which buyers will express their desire to have the goods, then similarities both of sound and of meaning may play an important part. The usual manner in which ordinary people behave must be the test of what confusion or deception may be expected. Potential buyers of goods are not to be credited with any high perception or habitual caution. On the other hand, exceptional carelessness or stupidity may be disregarded. The course of business and the way in which the particular class of goods are sold gives, it may be said, the setting, and the habits and observation of men considered in the mass affords the standard. Evidence of actual cases of deception, if forthcoming, is of great weight. It is sufficient to “cause confusion” within the terms of s.10 of the TMA if the minds of the purchasing public are perplexed or mixed up. In this respect, the threshold for error necessary to establish trade mark infringement is lower than that required for passing off or misleading or deceptive conduct."

Overview of Misleading or Deceptive Conduct

The enactment of s.52 of the Trade Practices Act 1974 (Cth) (TPA) introduced a new cause of action into Australian law, prohibiting misleading or deceptive conduct in trade or commerce. Like the tort of passing off, the cause of action for misleading or deceptive conduct has evolved. It is now contained in s.18(1) of the Australian...
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Consumer Law (ACL), which is Schedule 2 to the Competition and Consumer Act 2010 (Cth). Section 18(1) provides that:

A person must not, in trade or commerce, engage in conduct that is misleading or deceptive or is likely to mislead or deceive.

Whereas s.52 of the TPA only applied to “corporations”, s.18 of the ACL applies to “persons”. As a result, section 18 of the ACL applies to both corporate and non-corporate entities. In any event, a corresponding prohibition has applied against “persons” for many years under “Fair Trading” legislation in each State and Territory.

The focus of the cause of action contained in s.18(1) is the protection of consumers, not the protection of goodwill. Accordingly, the focus of any enquiry concerning misleading or deceptive conduct is different to any enquiry concerning passing off. Significantly, the elements of the causes of action are different. For example, there is no requirement, to establish a contravention of s.18(1) of the ACL, that an applicant prove any particular level of reputation. The question is simply whether consumers are likely to be misled or deceived by the impugned conduct (which must first be identified).

The Full Court of the Federal Court considered the different nature of the causes of action for passing off and misleading or deceptive conduct in Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd. Similar to Tamberlin J in Hansen Beverage Company v Bickfords (Australia) Pty Ltd observed that:

It should be noted that s.52 of the TPA imposes no requirement that any particular reputation must be established before a breach of s.52 can be made out…Accordingly, the sufficiency of any reputation which is required to be shown may be less in proceedings under the TPA than in proceedings alleging passing off.

The weight of authority suggests that conduct will be misleading or deceptive if, but only if, “a not insignificant number of persons within the relevant section of the public would be misled or be likely to be misled by reason of the impugned conduct,” although it has been suggested that it is inappropriate to prescribe a minimum number of consumers who need to be misled and that conduct which misleads even a small number of consumers might be misleading or deceptive.

It is difficult to conceive of circumstances in which conduct might constitute passing off, but not be misleading or deceptive. To the extent that conduct damages the goodwill of an applicant by falsely suggesting a connection between a respondent’s goods or services and an applicant’s goods or services, that conduct ought, by definition, be misleading or deceptive. In contrast, it is clear that conduct might be misleading or deceptive, but not constitute passing off. For example, false statements regarding the price of a product might constitute misleading or deceptive conduct, contravening s.18 of the ACL, but not constitute passing off.

Further, and unlike in an action for passing off, there is no requirement that an applicant prove loss or damage in order to make out a claim for misleading or deceptive conduct (although this may, of course, be relevant to the question of relief).

Accordingly, whilst it is common for there to be an overlap between a passing off claim and a claim for misleading or deceptive conduct, the causes of action are not co-extensive. A claim for misleading or deceptive conduct might succeed in circumstances where a claim for passing off might fail.
Relevance of Surrounding Circumstances to Passing Off, Trade Mark Infringement and Misleading or Deceptive Conduct

In considering whether consumers are likely to be misled or deceived (for the purpose of s.18 of the ACL or passing off), it is necessary to consider all surrounding circumstances. It will be relevant to assess “the type of market in which the goods are sold, the manner in which they are sold, and the habits and characteristics of purchasers in that market.” The use of disclaimers, other brand elements, and an applicant’s own conduct, might all be relevant to an assessment of the risk of deception in the context of a claim for misleading or deceptive conduct or passing off.

In contrast, when assessing deceptive similarity for the purpose of trade mark infringement pursuant to s.120(1) of the TMA, the Full Court of the Federal Court has held that: “A wider inquiry of the kind that might be undertaken in a passing off action, or in a proceeding in which contravention of Pt V of the TP Act is alleged, is not appropriate”. Whilst “surrounding circumstances” will need to be taken into account, the circumstances which will be considered are likely to be more confined than in the context of passing off or misleading or deceptive conduct. In Pacific Publications Pty Ltd v IPC Media Pty Ltd, Beaumont J held that:

…the comparison is between any normal use of the applicant’s mark and that which the respondent actually does on its magazine, but ignoring any matter added to the allegedly infringing trade mark, so that, for instance, the court disregards as presently irrelevant any disclaimer, price differential or differences in use by the parties of colour or display method or in the respective sections of the public to whom the magazines are sold: Wingate at FCR 128–9; ALR 229; IPR 230–1. In other words, whilst “surrounding circumstances” will need to be taken into account, the circumstances which will be considered are likely to be more confined than in the context of passing off or misleading or deceptive conduct. In Pacific Publications Pty Ltd v IPC Media Pty Ltd, Beaumont J held that:

As a result, it is at least theoretically possible that a respondent might infringe a registered trade mark under s.120(1) of the TMA, but escape liability for passing off or misleading or deceptive conduct, if certain circumstances surrounding the respondent’s conduct are sufficient to alleviate the risk of deception.

“Trade or Commerce” Requirement

Section 18 of the ACL prohibits misleading or deceptive conduct “in trade or commerce”. Section 2 of the ACL defines trade or commerce to mean:

(a) trade or commerce within Australia; or
(b) trade or commerce between Australia and places outside Australia;
and includes any business or professional activity (whether or not carried on for profit).

In Concrete Constructions (NSW) Pty Ltd v Nelson, Mason CJ, Deane, Dawson and Gaudron JJ held (in relation to s.52 of the TPA) that:

Indeed, in the context of Pt V of the Act with its heading “Consumer Protection”, it is plain that s.52 was not intended to extend to all conduct, regardless of its nature, in which a corporation might engage in the course of, or for the purposes of, its overall trading or commercial business. Put differently, the section was not intended to impose, by a side-wind, an overlay of Commonwealth law upon every field of legislative control into which a corporation might stray for the purposes of, or in connection with, carrying on its trading or commercial activities. What this section is concerned with is the conduct of a corporation towards persons, be they consumers or not, with whom it (or those whose interests it represents or is seeking to promote) has or may have dealings in the course of those activities or transactions which, of their nature, bear a trading or commercial character. Such conduct includes, of course, promotional activities in relation to, or for the purposes of, the supply of goods or services to actual or potential consumers, be they identified persons or merely an identifiable section of the public. In some areas, the dividing line between what is and what is not conduct “in trade or commerce” may be less clear and may require the identification of what imports a trading or commercial character to an activity which is not, without more, of that character.

There have been a number of cases involving allegations of misleading or deceptive conduct
which have failed on the basis that the impugned conduct was not in trade or commerce. For example, in *Plimer v Roberts* the Full Federal Court held that misleading representations made by the respondent in public lectures, regarding his involvement in archaeological and scientific investigations concerning a geological formation, were not in trade or commerce.37

In contrast, it is arguable that it is not strictly necessary that passing off or trade mark infringement occur “in trade or commerce”, despite Lord Diplock including such a requirement in *Erven Warnink Besloten Vennootschap v J Townsend & Sons (Hull) Ltd*.38

That is, it is possible that where misleading or deceptive representations are made, and those representations are not made in trade or commerce, an action for passing off (or trade mark infringement) might succeed, whereas an action for contravention of s.18 of the ACL might fail.

This is well illustrated by *A-G ex rel Elisha v Holy Apostolic Church.*39 In that case, Young J was required to consider whether “any order should be made requiring the first defendant to change its name to one not similar to the patriarchal group”.40 The first defendant had been incorporated and its objects included to “maintain faithfully and irrevocably the dogmas of the Holy Canons and confirm to the immemorial usage of the Holy Apostolic and Catholic Church of the East”.41

Young J held that a contravention of s.52 of the TPA could not be established on the facts because the impugned conduct had not occurred in trade or commerce:

> In my view, where a body formed predominantly for the holding of land so that religious services can be conducted in a church built thereon, adopts a name associated with a church, it is not doing so in trade or commerce and s.52 cannot be called in aid.42

In contrast, Young J held that relief was available at common law to protect the goodwill obtained by a religious organisation in its name:

> I cannot see any reason why a religious organisation should not have the same protection as to the goodwill in its name as is afforded by the law to commercial organisations. Surely whilst religious organisations may not have ordinary commercial goodwill, they have something closely analogous thereto in that their reputation will be damaged by people falsely ascribing as an adjunct to them the organisation which is holding itself out by a deceptively similar name….

On the evidence it appears to me, for the reasons which I have already traversed, that the patriarchal group by the activities at Fairfield between 1970 and 1986 have established that the name of the Church is part of the property associated with the charitable purposes for which the Attorney-General seeks relief and it seems to me that the relief sought that the defendant company should change its name is relief which I should also give.43

Although Young J did not specifically refer to “passing off”, and referred in some detail to decisions in the United States concerning the “law of unfair competition”,44 the decision of Young J illustrates how it might be possible for an applicant to succeed in an action for passing off in respect of conduct which did not occur in trade or commerce and which did not contravene s.18 of the ACL.

**Joint Liability for Passing Off, Trade Mark Infringement, and Misleading or Deceptive Conduct**

Passing off is a tort, as is the infringement of a registered trade mark. Accordingly, common law principles concerning the liability of joint tortfeasors have been applied in a number of cases involving allegations of trade mark infringement and passing off.45

In *Thompson v Australian Capital Television Pty Ltd*,46 Brennan CJ, Dawson and Toohey JJ held that liability as joint tortfeasors arises if two or more persons act in concert in committing a tort.47

Likewise, Gummow J held:

> In England, Australia and New Zealand, criteria for the identification of joint tortfeasors are to be found in expressions used in The “Kourik”. Scrutton LJ there spoke of “two persons who agree on common action, in the course of, and to further which, one of them commits a tort”, saying that in such a case there is one tort committed by one of them “in concert with another”. Sargant LJ accepted the proposition that persons are joint tortfeasors when their “respective shares in the commission of the tort are done in furtherance of a
common design” so that those who “aid or counsel, direct, or join” in commission of the tort are joint tortfeasors. Further, there must be a “joint purpose” for there to be liability as joint tortfeasors. That is, “there must be a concurrence in the act or acts causing damage not merely a coincidence of separate acts which by their conjoined effect cause damage”.

More recently, the test for joint tortfeasorship has been expressed in terms of whether the alleged joint tortfeasor:

(a) Directed or procured the infringing conduct of the primary infringer.
(b) Was involved in invading the applicant’s rights.
(c) Had a close personal involvement in the infringing acts of the primary infringer.
(d) Made the primary infringer’s tort his or her own, and/or
(e) Used the primary infringer as an instrument of his or her own wrong.

The test for establishing accessorial liability under the ACL may be less stringent than the joint tortfeasor test which applies to passing off and trade mark infringement. An applicant may seek to recover damages from, or obtain injunctive relief restraining, any person who has aided, abetted, counselled or procured, or was in any way directly or indirectly knowingly concerned in, or a party to, a contravention of s.18 of the ACL. In this respect, it is necessary to establish that a person intentionally participated in the contraventions, including by showing that the person had knowledge of the essential facts that made up the contraventions. However, it is not necessary to prove that the person was aware that their participation constituted a breach of the ACL.

Available Defences to Passing Off, Trade Mark Infringement, and Misleading or Deceptive Conduct

The TMA contains a number of specific defences to claims for trade mark infringement. There is no equivalent list of specific defences to passing off, although unclean hands, bona fide use of own name, or honest concurrent user might, arguably, provide defences to, or preclude a finding of, passing off. A number of cases have also suggested that acquiescence, laches, delay and estoppel might provide defences to trade mark infringement or passing off. Although that might be so in relation to estoppel, it is otherwise difficult to reconcile such cases with the judgment of Gleeson CJ, Gummow, Hayne and Crennan JJ in Battistatos v Roads Traffic Authority of New South Wales, in which their Honours held that legal claims (as opposed to equitable claims) “are subject to any applicable statutory limitation but not to equitable defences of laches, acquiescence and delay”.

There is little, if any, room for the operation of such defences in response to an allegation of contravention of s.18 of the ACL. That is because the focus of s.18 of the ACL is consumer protection. For example, in Mortgage House of Australia Pty Ltd v Mortgage House International, Beaumont J held that estoppel “can provide no answer to a claim under s.52(1) brought to vindicate the interests of consumers”. In a similar vein, McDougall J in Abigroup Contractors v Sydney Catchment Authority held that “an estoppel creating private rights should not prevail against the public rights that s.52 is intended to vindicate”.

However, whatever might be the case in relation to liability, the Full Court of the Federal Court has recently determined that aspects of laches, acquiescence and delay may, depending on the circumstances, be “relevant to the question of relief” granted for passing off or contravention of s.18 of the ACL.

Relief Available for Passing Off, Trade Mark Infringement, and Misleading or Deceptive Conduct

In the event that passing off is established, the relief available includes an injunction, and at the option of an applicant, compensatory damages or an account of profits. Further, “the circumstances of a passing off may be such as to make it appropriate to punish a respondent for conduct showing a conscious and contumelious disregard for the wronged party’s rights and to deter the wrongdoer from committing like conduct again” by awarding exemplary damages in addition to compensatory damages.

In the event that a registered trade mark is infringed, the relief available includes an
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injunction, and at the option of an applicant, compensatory damages or an account of profits. Since the commencement of certain “Raising the Bar” amendments, the relief available for trade mark infringement also includes additional damages.

The relief available for misleading or deceptive conduct is more limited. The primary relief available includes an injunction and compensatory damages. Unlike in a claim for passing off, an applicant cannot seek exemplary damages for misleading or deceptive conduct.

This is because s.236 of the ACL provides that an applicant can only recover “loss and damage”. As Fisher, Gummow and Lee JJ held in Munchies Management Pty Ltd & Anor v Belperio & Anor, in relation to the TPA:

*It has generally been assumed that because “loss or damage” is used to identify both the gist of the action under s.82 and the measure of what is recoverable… given their nature, exemplary damages seem beyond the reach of the concepts of loss or damage.*

Similarly, an applicant cannot elect an account of profits instead of damages, if a contravention of s.18 of the ACL is established. In Multigroup Distribution Services Pty Ltd v TNT Australia Pty Ltd & Ors, Gyles J considered in some detail whether an account of profits might be available for a breach of s.52 of the TPA and held:

*In my opinion, the decision of the High Court in Marks v GIO is an answer to the other contentions of the applicants. The decision of the majority in that case underlines the compensatory nature of orders to be made pursuant to s.87 and makes clear that analogy between s.87 and equitable relief is an unsafe foundation to build upon (Gaudron J at 502, 503 and 505, McHugh, Hayne and Callinan JJ at 510 and 513, Gummow J at 528-529 and 534-535). An account of profits is not compensation but rather an award to prevent unjust enrichment (Dart Industries Inc v Decor Corp Pty Ltd (1993) 179 CLR 101 per Mason CJ, Deane, Dawson and Toohey JJ at 111, per McHugh J at 123)*…

In Australian Rugby Union Ltd v Hospitality Group Pty Ltd (2000) 173 ALR 702 I considered and rejected an argument that the tort of inducing breach of contract was appropriate for the award of restitutionary damages by way of account of profits (at 741 [129]). What I said there would support the conclusion that an account of profits would not be appropriate where the purpose is to compensate and nothing I have heard in argument in this matter has caused me to doubt my conclusion in that case….

The House of Lords has now confirmed that for England an account of profits is available as a remedy for breach of contract in what is described as an exceptional case. The present is not a contract case and the decision is not directly in point. In any event, notwithstanding a wide ranging review of the authorities, I see no reference in the speeches to any prior case which would authorise an account of profits where the object is compensation for loss or damage. In my view, the decision of the House of Lords does mark a radical change in the law of remedies which it is not open to a single judge of this Court to apply to the construction of the Act.
# Summary of Comparison of Passing Off, Trade Mark Infringement, and Misleading or Deceptive Conduct

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Passing</th>
<th>Trade mark infringement</th>
<th>Misleading or deceptive conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Need for registration</strong></td>
<td>No.</td>
<td>Yes.</td>
<td>No.</td>
</tr>
<tr>
<td><strong>Need for reputation</strong></td>
<td>Need to establish reputation as an element of the action: are a “significant” or “substantial” number of persons within the jurisdiction aware of the applicant’s reputation?</td>
<td>No.</td>
<td>No requirement to establish reputation as an element of the action. As a practical matter, an applicant will often need to prove some level of reputation to establish misleading or deceptive conduct.</td>
</tr>
<tr>
<td><strong>Threshold of deception</strong></td>
<td>Misrepresentation likely to deceive consumers to believe that the respondent’s goods or services are of another or have an association, quality or endorsement which belongs or would belong to goods or services of, or associated with, another.</td>
<td>Real risk that the respondent’s use of its mark will cause a significant number of ordinary persons to wonder whether it might be the case that the two products or services come from the same source or are otherwise related. It is sufficient if the minds of the purchasing public are perplexed or mixed up.</td>
<td>A not insignificant number of persons within the relevant section of the public are misled or are likely to be misled by the impugned conduct.</td>
</tr>
<tr>
<td><strong>Relevance of surrounding circumstances</strong></td>
<td>Take into account all surrounding circumstances.</td>
<td>Take into account a more limited range of circumstances – the general context or setting in which the marks are to be compared.</td>
<td>Take into account all surrounding circumstances.</td>
</tr>
<tr>
<td><strong>Trade or commerce</strong></td>
<td>Arguably not required that impugned conduct be in “trade or commerce”.</td>
<td>No requirement that impugned conduct be in “trade or commerce”.</td>
<td>Impugned conduct must be undertaken in trade or commerce.</td>
</tr>
<tr>
<td><strong>Joint liability</strong></td>
<td>Liability established if two people act in concert for a joint purpose when engaging in the unlawful conduct.</td>
<td>Liability established if two people act in concert for a joint purpose when engaging in the unlawful conduct.</td>
<td>Liability established if a person aided, abetted, counselled or procured, or was in any way directly or indirectly knowingly concerned in, or a party to, a contravention of the ACL.</td>
</tr>
<tr>
<td><strong>Defences</strong></td>
<td>Estoppel and miscellaneous defences may be argued. Aspects of laches, acquiescence and delay may also be relevant to relief.</td>
<td>Numerous specific defences. Estoppel and miscellaneous defences may be argued. Aspects of laches, acquiescence and delay may also be relevant to relief.</td>
<td>Doubtful whether any relevant defences, if contravention established, although aspects of laches, acquiescence and delay may be relevant to relief.</td>
</tr>
<tr>
<td><strong>Relief</strong></td>
<td>Injunctive relief, compensatory damages, exemplary damages, and/or account of profits.</td>
<td>Injunctive relief, compensatory damages, additional damages, and/or account of profits.</td>
<td>Injunctive relief and compensatory damages.</td>
</tr>
</tbody>
</table>
Trade Marks and Passing Off – Has the Old Tort Passed On?

Conclusion

In Australia at least, the tort of passing off is on its last legs. The tort offers a litigant lacking a registered trade mark two distinct advantages over s.18 of the ACL. First, relief might be available even though the impugned conduct is not “in trade or commerce”. Secondly, the tort offers a litigant access to an account of profits and exemplary damages, a distinct advantage over misleading or deceptive conduct in cases where such remedies are appropriate.

However, beyond this, the life of the tort seems limited indeed. In particular, it requires an applicant to prove matters not necessarily required under the TMA or ACL (such as reputation and loss), the deception against which it guards is more limited than under the TMA or ACL, and an applicant alleging passing off may have more work to do to establish joint liability and to avoid the application of defences than under the ACL.

It follows that, if a case has potential for exemplary damages or a significant account of profits, it may be wise to include an allegation of passing off. Otherwise, it may be avoided.

1 (1990) 17 IPR 1 at 7.
3 (2011) 92 IPR 222 at [212].
7 (1989) 23 FCR 553.
8 (1996) 34 IPR 225.
11 (2011) 92 IPR 222.
12 (2008) 79 IPR 174 at [35].
13 Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (2007) 159 FCR 397 at [99].
14 Hansen Beverage Company v Bickfords (Australia) Pty Ltd (2008) 79 IPR 174 at [34] and [59].
16 See Johnson & Johnson Australia Pty Ltd v Serling Pharmaceuticals Pty Ltd (1991) 30 FCR 326 at 347-8 and Irving’s Yeast-Vite Ltd v FA Heronial Co Ltd (1934) 51 RPC 110.
17 (1963) 109 CLR 407 at 415.
18 (1937) 58 CLR 641 at 658.
21 In Google Inc v Australian Competition and Consumer Commissions (2013) 294 ALR 404, Hayne J held at [89] that: “The first question for consideration is always: “What did the alleged contravener do (or not do?)”. It is only after identifying the conduct that is impugned that one can go on to consider separately whether that conduct is misleading or deceptive or likely to be so.”
22 (2007) 159 FCR 397 at [98]-[99].
23 (2008) 79 IPR 174 at [44].
24 Peter Bodun AS v DKSH Australia Pty Ltd (2011) 92 IPR 222 at [209] and [272].
26 See, for example, Sports Leisure Pty Ltd & Ors v Paul’s International Pty Ltd & Ors (2010) 275 ALR 258 at [129].
27 Central Equity Ltd v Central Corp Pty Ltd (1995) 32 IPR 481 at 488.
28 See Mars Australia Pty Ltd v Sweet Rewards Pty Ltd (2009) 81 IPR 354 at [27].
29 See, for example, Peter Isaacson Publications Pty Ltd v Nationwide News Pty Ltd & Anor (1984) 6 FCR 277 at 300-301.
31 Rickitt & Coleman Products Ltd v Bonden Inc (1990) 17 IPR 1 at 16-17.
33 Australian Postal Corporations v Digital Post Australia (No 2) (2012) FCA 862 at [58].
35 (1990) 169 CLR 594 at 603.
36 (1997) 80 FCR 303.
41 (1989) 37 NSWLR 293 at 305.
42 (1989) 37 NSWLR 293 at 318.
44 (1989) 37 NSWLR 293 at 318.
46 (1996) 186 CLR 574.
48 (1996) 186 CLR 574 at 600.
49 The Known [1924] P 140 at 159-160; TS & B Retail Systems Pty Ltd v 3Field Resources Pty Ltd (No 3) (2007) 158 FCR 44 at [177]-[178].
50 Performing Right Society Ltd v Gorys Theatrical Syndicate Ltd (1924) 1 KB 1 per Arkin J.
51 Keller v LED Technologies Pty Ltd (2010) 185 FCR 449 at [83]-[84] per Emmett J.
52 Keller v LED Technologies Pty Ltd (2010) 185 FCR 449 at [291] per Beazinko J.
53 Keller v LED Technologies Pty Ltd (2010) 185 FCR 449 at [405] per Jessup J.
54 Keller v LED Technologies Pty Ltd (2010) 185 FCR 449 at [404] per Jessup J.
35

55 See: ss 232(1)(b), 236(1) and 2 of the ACL.
57 Yorke v Lucas (1985) 158 CLR 661 at 666-9; AMI Australia Holdings Pty Ltd v Bude Medical Institute (2009) 84 IPR 19 at [93].
58 Sections 122-4 of the TMA.
60 Although cf. Anheuser-Busch Inc v Budejovicky Budvar, Novotni Pudlik & Ors (2002) 56 IPR 182 at [197].
63 (2006) 226 CLR 256 at [18].
64 See also, Orr v Ford (1989) 167 CLR 316 at 340.
65 (2004) 63 IPR 600 at [139].
66 (2005) NSWSC 662 at [74].
67 Knott Investments Pty Ltd v Winnebago Industries Inc [2013] FCAFC 59 at [53] and [56] per Allsop CJ, [102] – [107] per Gageler J, and [131] and [137] per Jagot J.
68 Taleb & Anor v GM Holden Ltd (2011) 286 ALR 309 at [41].
69 Section 126(1) of the TMA.
70 Section 126(2) of the TMA.
71 Section 232 of the ACL.
72 Section 236 of the ACL.
74 (2001) 109 FCR 528 at [35]-[42].
The Evolution of a Workable Scheme for End Point Royalties for Plant Varieties

Introduction

Plants in Australia can be intellectual property protected by patents under the Patents Act 1990 (Cth) (Patents Act) and plant breeder’s rights (PBR) according to the International Convention for the Protection of New Varieties of Plants (UPOV Convention) compliant with the Plant Breeder’s Rights Act 1994 (Cth) (PBR Act). In dealing with the patent or PBR, the rights holder can collect royalties – these are an amount associated with the patent or PBR – as consideration to use the right, for the right to use the right, for information and knowledge about the patent or PBR, and the supply of assistance to exploit the patent or PBR.

The royalties on protected plant materials were traditionally determined as part of an agreement between the right holder (or the assignee or licensee) and the purchaser at the time of purchase. The End Point Royalty (EPR) is an alternative to this model applying not at the point of purchase but on the outcomes from exercising the patent or PBR – either on the sale of harvested material, or the sale of products made from the harvested material. The EPR is then calculated either as a periodic payment imposed on the grower directly by the patent or PBR holder (or their licensee or assignee) based on reported harvested materials, or an automatic deduction imposed on growers when they deliver their harvested materials to traders (and then paid by the trader to the patent or PBR holder). In each case, the EPR is calculated according to the amount of harvested materials rather than the materials purchased at the time of first sale.

In the 1990s, EPRs were considered to be desirable because they would “encourage more rapid adoption of a new variety”, “increase revenue to support plant breeding programmes”, and “encourage further private investment in crop improvement”. Most significantly:

EPRs have the benefits of reducing upfront seed costs for growers, overcoming loss of sales through farmer’s privilege … and sharing the risk of crop failure between growers and PBR owners.

The purpose of this article is to review the development of EPRs as an alternative model for royalties to the traditional point of sale royalty models and the institutional architecture that has been implemented through law that enables EPRs as a means of collecting royalties. EPRs have now matured in Australia and it is timely to reflect on the current arrangements and perhaps consider the longer-term consequences of these developments.

The article is structured as follows: The first part places the EPR arrangements within the statutory scheme for patents under the Patents Act and PBRs under the PBR Act. The following parts trace the evolution of the PBR scheme to accommodate EPRs and consider the approaches of the various Primary Industries and Energy Research and Development Act 1989 (Cth), and the Research and Development Corporations (RDCs) to EPRs. The final part sets out a discussion.

The article concludes that, despite a series of legislative developments to enable EPRs under the PBR Act, these were not necessary and that the impetus has come from certain of the RDCs, as a generalisation, educating growers about the benefits of EPRs, assigning unique grower identifiers, streamlining contractual arrangements, and providing science-based information to growers about the growing characteristics of the EPR-protected varieties. Finally, some of the future challenges are considered.

Current Patent Scheme

Under the Patents Act, a standard patent is personal property that can be assigned and licensed to others, that is the “exclusive right” to “exploit the invention and to authorise another person to exploit the invention”, where “exploit” includes:

(a) Where the invention is a product – make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use
or import it, or keep it for the purpose of doing any of those things; or
(b) Where the invention is a method or process – use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use.  

Any plant materials may be patented if the threshold criteria are satisfied, and patents are routinely granted for whole plants and parts or components of plants. Significantly, for the purposes of this article, patents over whole plants and parts or components of plants allow the holder to exercise their “exclusive rights” until the patent exhausts. This does not happen as long as the patent holder (or the assignee or licensee) only gives away less that the whole interest in the patent and does not extend to the progeny (a remaking of the invention). Significantly, the patent’s “exclusive rights” enable the patent holder (or the assignee or licensee) to impose conditions of the purchase of plant materials at the point of sale, including EPR arrangements.

Current PBR Scheme

Under the PBR Act, a PBR in a “plant variety”, is “personal property” that can be assigned and licensed to others, that is the “exclusive right”:
Subject to this Act, to do, or to license another person to do, the following acts in relation to propagating material of the variety:
(a) produce or reproduce the material;
(b) condition the material for the purpose of propagation;
(c) offer the material for sale;
(d) sell the material;
(e) import the material;
(f) export the material;
(g) stock the material for the purposes described in paragraph (a), (b), (c), (d), (e) or (f).

These “exclusive rights” in some circumstances extend to essentially derived varieties, certain dependent plant varieties, harvested material and products obtained from harvested materials. These “exclusive rights” do not apply to acts done privately and for non-commercial purposes, for experimental purposes, or for the purpose of breeding other plant varieties, to the conditioning and using of farm saved seed, acts done by a person authorised by or under a law of the Commonwealth or of a State or Territory with adequate “equitable remuneration”, where not all reasonable steps to ensure reasonable public access to that plant variety has been made, and where the PBR has exhausted. The relevant provisions, in respect of “harvested material”, and subject to a farmer seed saving provision, are:

If:
(a) propagating material of a plant variety covered by PBR is produced or reproduced without the authorisation of the grantee; and
(b) the grantee does not have a reasonable opportunity to exercise the grantee’s right in relation to the propagating material; and
(c) material is harvested from the propagating material;
section 11 [the PBR’s “exclusive rights”] operates as if the harvested material were propagating material.

and:

If:
(a) propagating material of a plant variety covered by PBR is produced or reproduced without authorisation of the grantee; and
(b) the grantee does not have a reasonable opportunity to exercise the grantee’s rights in relation to the propagating material; and
(c) material is harvested from plants grown from the propagating material but the grantee does not have, in the circumstances set out in section 14, a reasonable opportunity of exercising the grantee’s rights in the harvested material; and
(d) products are made from the harvested material;
section 11 [the PBR’s “exclusive rights”] operates as if those products were propagating material.

The PBR Act also provides an exemption for “farm saved seed” (really meaning all “propagating material” and not just seeds) if:

(a) a person engaged in farming activities legitimately obtains propagating material of a plant variety covered by PBR either by purchase or by previous operation of this section, for use in such activities; and
(b) the plant variety is not included within a taxon declared [by the Plant Breeder’s Rights Regulations 1994 (Cth)] to be a taxon to which this subsection does not apply; and
(c) the person subsequently harvests further propagating material from plants grown from that first-mentioned propagating material;
The Evolution of a Workable Scheme for End Point Royalties for Plant Varieties

the PBR is not infringed by:
(d) the conditioning of so much of that further propagating material as is required for the person’s use for reproductive purposes; or
(e) the reproduction of that further propagating material.\(^{30}\)

The “farm saved seed” exemption is fairly narrow as the only “exclusive rights” exempted are the “reproduction” and “conditioning” for “reproduction”. The other “exclusive rights” of producing, conditioning for producing, offering for sale, selling, importing, exporting and stock for these purposes remain. Further, the limiting of the conditioning to “for the person’s use for reproductive purposes” means that “the reproduction of that further propagating material” is also confined to “for the person’s use for reproductive purposes”. In effect, the “farm saved seed” really only allows re-using the “propagating material” for personal use.\(^{31}\) This may be limited to only the first generation materials as subsequent farm saved seed generations may again be treated as “harvested materials” subject to the PBR’s “exclusive rights”.\(^{32}\) Any other dealings beyond personal use require the permission of the PBR holder.

Significantly, for our purposes, the PBR’s “exclusive rights” enable the PBR holder (or the assignee or licensee) to impose conditions of the purchase of plant materials at the point of sale, including EPR arrangements.

Evolution of the PBR Scheme to Accommodate EPRs

The original legislative intervention in this area was the Plant Varieties Act 1987 (Cth) that followed a detailed consideration of the competing issues relating to the desirability of a statutory scheme.\(^{33}\) The main concerns driving legislation was access to desirable foreign plant materials and “an incentive for the private sector in Australia to become more active in plant breeding”.\(^{34}\) The resulting Plant Variety Rights Act 1987 (Cth) was itself a long-fought compromise.\(^{35}\)

Following Australia joining the UPOV Convention in 1989, and then the revision of the UPOV Convention in 1991,\(^{36}\) and various legislative amendments,\(^{37}\) the PBR Act replaced the Plant Varieties Act 1987 (Cth).\(^{38}\) The PBR Act was drafted to conform to the revised 1991 UPOV Convention, and various other changes “to introduce other provisions that would further increase the efficiency of the plant variety rights scheme”.\(^{39}\) Some of the key changes in the 1991 UPOV Convention that were incorporated in the PBR Act were:\(^{40}\)

(a) Extending the scope of the PBR by specifying the “exclusive rights” exercisable by the PBR holder in addition to producing, reproducing, selling and licensing the “propagating material” to including condition the material, offering the material for sale, exporting and importing the material, and stocking the material for any of these purposes.\(^{41}\)

(b) Extending protections from just “propagating material” also to include “harvested material” and the “products made from harvested material”.\(^{42}\)

(c) Extending the PBR beyond the first sale where the “grantee does not have a reasonable opportunity to exercise the grantee’s right in relation to” the “propagating material” and “harvested material”.\(^{43}\)

The PBR Act was later amended by the Plant Breeder’s Rights Amendment Act 2002 (Cth) to avoid an interpretation of the PBR that allowed “some 90 per cent of PBR protected grain varieties in Australia pass through the commercial system without the PBR breeder having any opportunity to seek reward for their innovation”.\(^{44}\) The PBR Act had provided an exemption that acts done with the “propagating material” for use “as a food, food ingredient or fuel” or “for any other purpose that does not involve the production or reproduction of the propagating material” was not an infringement of the PBR.\(^{45}\)

At the same time, another amendment allowed a person authorised by a law (such as a statutory marketing authority) to infringe the PBR using “propagating material” and then pay “equitable remuneration”.\(^{46}\) At the time of the amendments, the Australian Government asserted that the “[a]gricultural industry is anticipating the introduction of the amendments positively as they will facilitate commercial arrangements based on plant breeder’s rights, including through a system of end point royalties”.\(^{47}\) The PBR Act has had other amendments,\(^{48}\) albeit not in material ways for the purposes of this article.\(^{49}\)

The basic scheme that enables EPR under the PBR Act was this provision for “exclusive rights” applying to “propagating material”\(^{50}\) and certain “harvested material”\(^{51}\) where there has not been “a reasonable
opportunity” to collect a royalty on “propagating material”.52 Importantly, the Plant Variety Rights Act 1987 (Cth) had only addressed “exclusive rights” for “plants of that variety”, “reproductive material of plants of that variety”, “plants of that variety for sale”, “reproductive material of plants of that variety for sale”, “asexual plants of that variety”, “asexual reproductive material of plants of that variety” and some of the fruit, flowers, or any other product of asexual plants.53 By expressly recognising both “propagating material” and “harvested material”,54 the PBR Act confirmed that dealings with harvested products of the PBR protected plants (such as seeds, flowers, fruits, cuttings, and so on) was an object that attracted the PBR’s “exclusive rights”.55 Added to this there was express recognition that royalties could be imposed after sale56 if there had not been “a reasonable opportunity” with the “propagating material”.57

With this authority of the PBR under the PBR Act, the rights holder can limit any dealings with the subject matter of the PBR (including the “harvested material”) subject to agreement between the rights holder and the other party. Despite extending the PBR and the potential for EPRs to both “propagating material” and “harvested material”, it is the basic “exclusive rights” over “propagating material” that founds agreements imposing EPRs.58 The EPR is then set out as a term of the agreement on the purchase of plant materials at the point of sale:59

(a) As a term requiring the purchaser to later declare how much “harvested material” was produced (other than as farm saved seed) and paying the PBR holder (or their agent) directly. This approach relies on the purchaser of the PBR protected materials properly declaring the amount of “harvested material” produced. The disadvantage of this approach is that the EPRs are not collected on materials that are not declared.

(b) As an authorised deduction on the payment made on “harvested material” delivered to a selected collection agency (such as a bulk grain handler). This approach relies on a centralised collection point properly identifying the PBR protected materials. The disadvantage of this approach is that the EPRs are not collected on materials that are not delivered to the centralised collection point.

The Patents Act was not beset with the perceived problems under the PBR Act as the patent does not necessarily exhaust on first sale and the progeny seeds are within the scope of the invention because they are a re-making of the invention. This is a distinction between using the patent-protected product and making the patent protected product. This distinction is necessary to avoid some important decisions that are likely to be significant in Australia as a consequence of the Australia-United States Free Trade Agreement.60

In both the United States Supreme Court decisions of Quanta Computer Inc v LG Electrics Inc and United States v Univis Lens Co, the invention was embodied in the product and the licences were an attempt to limit the uses of the product.61 In contrast, the lower court decisions in Monsanto Company v Bowman, Monsanto Company v Scruggs and Monsanto Company v McFarling involved making the second-generation (or progeny) seeds.62 Arguably, making is fundamentally different from using in the context of patents and exhaustion, and the authority of Quanta Computer Inc v LG Electrics Inc and United States v Univis Lens Co arguably does not apply to making.63 The United States Supreme Court is presently considering an appeal in the Monsanto Company v Bowman matter and seems likely to confirm the lower Court decision.

While both patents and PBRs enable EPRs to be imposed, the efficiency and effectiveness of imposing EPRs has been addressed through structural adjustments in the plant breeding industries. Without these structural adjustments steered by the RDCs, this would not have been possible. This is considered next.

Plant Breeding Industry Structure

The majority of Australian plant agriculture depends on self-pollinated field crops and annual pasture plants traditionally enabling farmers to maintain their own seed lines through on-farm planting and seed saving.64 This has been the common practice because the growing and ripening conditions in Australia make on-farm planting a reliable source of saved seed for future growing.65 This is in contrast with the European experience where ripening conditions make on-farm planting an unreliable source of seed for future growing and so encouraged farmers to buy in seeds that has sustained a significant commercial breeding culture for field, horticulture and ornamental plants.66
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In the United States, a reliance on hybrid varieties of corn that imposed a natural (hybrid vigour) block on seed saving sustained a significant commercial breeding culture. The result for Australian agriculture is that the ability of farmers to bulk up their own seeds for the self-pollinated field crops and annual pasture plants meant that only governmental breeding programs were sustainable. As a measure of these practices some estimates are that up to 95 per cent of Australian wheat production relies on farm saved seeds. As a consequence, Australian agricultural research relies significantly on taxpayer funding and has only slowly moved to a broader array of funding including a greater reliance on private funding. This move has coincided with significant technology developments and the development of new institutions. It is these institutional changes establishing RDCs that have driven the adoption of EPRs by facilitating their implementation and adoption.

Through various evolutionary models, the current governmental arrangements under the Primary Industries and Energy Research and Development Act 1989 (Cth) provide for RDCs. These RDCs essentially provide for a private sector-like corporation governed by industry and government experts that levy primary producers (and some processors), and then co-ordinate, among other things, a research investment strategy relying on the levy, some voluntary contributions and some co-investment from taxpayers. Thus, for example, the Sugar Research and Development Corporation Regulations 1990 (Cth) established the Sugar Research and Development Corporation as a Primary Industries and Energy Research and Development Act 1989 (Cth) RDC, that benefits from the levy imposed on “sugar cane produced in Australia … and accepted at a sugar mill for processing” of 14 cents per tonne. In recent times, the main change has been the transformation of some of the RDCs into industry-owned corporations operating under the Corporations Act 2001 (Cth), enabling them to separate out their research activities from their marketing operations. Thus, for example, the former Horticultural Research and Development Corporation was replaced by Horticulture Australia Limited [ACN 095 566 108] as a company declared by the Horticulture Marketing and Research and Development Services Act 2000 (Cth) that benefits from the levy imposed on “horticultural products … produced in Australia that are … sold by the producer or used by the producer in the production of other goods” of amounts per weight according to the horticultural products (almonds, apples, and so on).

In dealing with plants, the main RDCs address cotton (Cotton Research and Development Corporation (CRDC)), grains (Grains Research and Development Corporation (GRDC)), grapes (Grape and Wine Research and Development Corporation (GWRDC)), sugar (Sugar Research and Development Corporation (SRDC)), miscellaneous agricultural plants (Rural Industries Research and Development Corporation (RIRDC)), forestry (Forest and Wood Products Australia (FWPA)), and horticulture (Horticulture Australia Limited (HAL)). These organisations are considered next to illustrate the various approaches, limitations and institutional infrastructure necessary to impose EPRs and the leading roles driving the adoption of EPRs by the CRDC and GRDC, and the moves towards EPRs by the RIRDC and HAL.

**Forest and Wood Products Australia (FWPA)**

FWPA receives “forest industries products’ levy funding” from the Commonwealth for, in part, marketing, promotion, research and development activities, or other activities, for the benefit of the Australian forestry industry according to a ‘Funding Contract’. FWPA also receives matching funding from the Commonwealth for “research and development activities for the benefit of the Australian forestry industry and the Australian community generally.”

FWPA is a not-for-profit unlisted public company limited by guarantee under the Corporations Act 2001 (Cth) formed in 2007 as an industry owned replacement for the former Forest and Wood Products Research and Development Corporation. The change was: … motivated by industry’s desire to intensify the promotion of forest and wood products in an increasingly competitive marketplace, and to more effectively market its environmental credentials.

The “Funding Contract” provides that FWPA can only spend the levy and matching funds for “approved activities” that are “consistent with” a “Strategic Plan”, the “Annual Operating Plan”, the “Guidelines”, and “in a manner that is otherwise efficient, effective and ethical”. The systematic breeding of plants for forest and wood products is
clearly within the remit of the company’s funding101 and there is an active program of breeding.102

The FWPA “Strategic Plan” and “Annual Operating Plan” require, among other things, an articulated “Research and Development Program”,103 and the firm must maintain an “Intellectual Property Management Plan”.104 The current “Strategic Plan” and “Annual Operating Plan” identify plant breeding as part of the company’s priorities, including its investment priorities: “genetic improvement and delivery for increased wood yield and quality and for managing risks”.105

The “Annual Operating Plan” also provides:

Company funding policy is that all intellectual property created with FWPA funding is owned by the research provider, with FWPA maintaining an equity position in future IP commercialisation income. One of the conditions of FWPA funding for R&D projects is that levy payers have a beneficial right of access to final commercialised IP, through either reduced or waived royalty structures or other such arrangements that reflect the value of the levy funds provided to FWPA by the industry.106

FWPA is also required to prepare an “Annual Report” that addresses, among other matters, “intellectual property creation and protection, including management of intellectual property arising from research and development activities or acquired with funds”. A review of recent annual reports shows that EPRs are not a feature of FWPA’s activities. This is almost certainly because the harvested materials of forest industries products, such as trees, take a very long time to grow and collecting the EPR will be too far into the future. In most instances, this is likely to be after the 20-25 year PBR term expires. As a consequence, EPRs are not a realistic model.

Grape and Wine Research and Development Corporation (GWRDC)

The GWRDC111 receives levy funding from the Commonwealth for “the industry in Australia concerned with the production of grapes for processing, other than processing by drying” (grape industry) and “the industry in Australia concerned with the storage, distribution, marketing and sale of grape product or with the making of wine” (wine industry).112 The GWRDC also receives matching funding from the Commonwealth for some of the research and development activities.114 The functions of the GWRDC include “to investigate and evaluate the requirements for research and development”, “to co-ordinate or fund the carrying out of R&D activities that are consistent with the annual operational plan prepared by the Corporation and in force at the time” and “to facilitate the dissemination, adoption and commercialisation of the results of research and development”.115 The GWRDC is a Commonwealth authority under the Commonwealth Authorities and Companies Act 1997 (Cth) with various obligations to the Minister for Agriculture, Fisheries and Forestry and the Commonwealth Parliament.116

The GWRDC’s Strategic Research, Development and Extension Plan 2012-17 and our Annual Operating Plan 2012-13 both articulate a research, development and extension (RD&E) “that supports a competitive Australian wine sector”. None of these documents specifically addresses intellectual property, and perhaps significantly, the Annual Report 2011-2012 provides that “the GWRDC holds no patents or other registered intellectual property”. While intellectual property is reported in commissioned research reports, this does not appear to be actively taken up by the GWRDC. Like forest industries products, such as trees addressed above, vines take a long time to grow and collecting the EPR is a long way into the future. In many instances, this is likely to be after the 20-25 year PBR term expires. In the case of rootstock used for grafting desirable vines, there are no harvested materials. As a consequence, EPRs are not a realistic model.

Sugar Research and Development Corporation (SRDC)

The SRDC120 receives levy funding from the Commonwealth for “the industry in Australia concerned with the production and processing of sugar cane, and the distribution, storage, marketing and sale of raw sugar”.122 The SRDC also receives matching funding from the Commonwealth for some of the research and development activities.123 The functions of the SRDC include “to investigate and evaluate the requirements for research and development”, “to co–ordinate or fund the carrying out of R&D activities that are consistent with the annual operational plan prepared by the Corporation and in force at the time” and “to facilitate the dissemination, adoption and commercialisation of the results of research and development”. The SRDC is a Commonwealth
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authority under the Commonwealth Authorities and Companies Act 1997 (Cth) with various obligations to the Minister for Agriculture, Fisheries and Forestry and the Commonwealth Parliament.125

As a part of the SRDC’s operations there is an active breeding program.126 There does not, however, appear to be any interest in EPRs. This may be, in part, because sugar cane is planted from pieces of mature sugarcane (setts) that are planted using special machines which cut the mature cane into setts that are then mechanically placed into the prepared soils. After harvesting, the sugar cane then grows from the stubble left behind (the Ratoon Crop) that can be harvested and regrown three to four times.

Rural Industries Research and Development Corporation (RIRDC)

The RIRDC receives levy funding from the Commonwealth for a wide range of industries including the plant related “growing and harvesting of plants, grains, seeds, fruit or vegetables”, “production of ... plant fibres”, “growing, harvesting and processing of trees”, and “production of animal feed”.129 The RIRDC also receives matching funding from the Commonwealth for some of the research and development activities.130 The functions of the RIRDC include “to investigate and evaluate the requirements for research and development”, “to co–ordinate or fund the carrying out of R&D activities that are consistent with the annual operational plan prepared by the Corporation and in force at the time” and “to facilitate the dissemination, adoption and commercialisation of the results of research and development”.131 The RIRDC is a Commonwealth authority under the Commonwealth Authorities and Companies Act 1997 (Cth) with various obligations to the Minister for Agriculture, Fisheries and Forestry and the Commonwealth Parliament.132

As a part of the RIRDC’s operations there are active breeding programs, albeit EPRs are only starting to be considered.133 Within the diversity of the RIRDC’s broad interests there is starting to be some interest in EPRs.134

Horticulture Australia Limited (HAL)

HAL receives “horticultural product” levy funding from the Commonwealth for marketing and research and development according to a “deed of agreement”.135 HAL also received matching funding from the Commonwealth for certain research and development activities.136 HAL is a not-for-profit unlisted public company limited by guarantee under the Corporations Act 2001 (Cth) formed in 2001 as an industry-owned replacement for the former Horticultural Research & Development Corporation and Australian Horticultural Corporation.141 The “deed of agreement” of 3 November 2010 provides that HAL may only apply the levy funding and matching Commonwealth finding according to a “Strategic Business Plan”, an “Annual Operational Plan” and “Guidelines”.142

The systematic breeding of plants for horticulture products is clearly within the remit of the company’s funding for “horticulture research and development projects” and the “carrying out, and coordination and funding for the carrying out, of horticulture [systematic experimentation or analysis] activities”.143 There is currently an active program of breeding.144 The “deed of agreement” of 3 November 2010 also requires HAL to have an “Intellectual Property Management Plan”.145 The Plan has not yet been published by HAL and remains confidential.146 Perhaps surprisingly, however, the “Strategic Business Plan”, the “Annual Operational Plan” and the “Guidelines” do not address intellectual property.147 Despite this, HAL has taken an important role in promoting EPRs and the broader education of growers about EPRs.148

Cotton Research and Development Corporation (CRDC)

The CRDC receives levy funding from the Commonwealth for “the Australian industry concerned with the production, distribution, processing and sale of cotton”.151 The CRDC also receives matching funding from the Commonwealth for some of the research and development activities.152 The functions of the CRDC include “to investigate and evaluate the requirements for research and development”, “to co–ordinate or fund the carrying out of R&D activities that are consistent with the annual operational plan prepared by the Corporation and in force at the time” and “to facilitate the dissemination, adoption and commercialisation
of the results of research and development”.153 The CRDC is a Commonwealth authority under the Commonwealth Authorities and Companies Act 1997 (Cth) with various obligations to the Minister for Agriculture, Fisheries and Forestry and the Commonwealth Parliament.154

As a part of the CRDC’s operations there is an actively supported breeding program, albeit only part funded and administered by the CRDC.155 To address the market failure in the late 1980s for breeding in the cotton industry the CRDC established a research program specifically directed to breeding improved cotton plants. This proved successful and, with the release of new varieties (almost yearly),156 and associated royalty sharing arrangements (addressed further below),157 the CRDC then withdrew.158 The CRDC’s breeding endeavours were superseded in 2007 with the Cotton Breeders Australia joint venture between the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and Cotton Seed Distributors Ltd (a grower owned enterprise formed in the 1980s).159

In effect, the market failure identified and addressed by the CRDC in the late 1980s had been resolved and the CRDC/CSIRO joint venture was the independent and active breeding program envisioned by the CRDC.160 The CRDC has since shifted to funding new challenges posed by changing climate and the “multi-enterprise production systems” (growing cotton as well as other crops in different seasons) so that the “emphasis for future R&D investment [is] to creating greater value for cotton post-farm-gate”.161 Despite this change in major emphasis, the CRDC still funds breeding programs to improve cotton plant varieties as a part of its strategic investments, and in particular, premium cotton varieties for the high value yarn market.162

Of particular interest for our purposes are the EPR arrangements for the CRDC funded breeding programs for which royalties are payable until 2017,163 and the varieties made available from the Cotton Breeders Australia joint venture.164 These breeding programs essentially introduced patented genetic elements into cotton varieties bred to suit Australian agricultural landscapes.165 This involved breeding agreement between the owners of the germplasm, the owners of the proprietary genetic elements and the funders of the research introducing the proprietary genetic elements into the desirable germplasm,166 including agreement as to the division of royalties.167 Farmers then purchase the seed for cropping according to an agreement and the payment of fees that include an option for EPRs. Cotton varieties with the proprietary elements “Bollgard II stacked with Roundup Ready Flex” illustrate the role and place of EPRs.168

Before taking possession of seeds incorporating the proprietary elements “Bollgard II stacked with Roundup Ready Flex”, the farmer is required to “complete and sign” the “Technology User Agreement”.169 The farmer is assigned a unique number that is required for each purchase of seeds,170 and undertakes not to re-sell or supply seeds unless the farmer ‘has a bona fide and reasonable belief that the purchaser intends to and will use it only as stock feed or for cotton seed oil production”,171 to not save any seeds,172 and not to plant the seeds produced from the harvest.173 By signing the agreement, the farmer also agrees to allow the owner of the proprietary elements access to the farm and any records for audits, surveys and inspections,174 and to pay one of the following fees:

(a) “Cotton Choices – Price discount” – A fixed price per hectare ($370) on the amount declared at the time of purchase and paid by a fixed date (28 February 2013).175

(b) “Cotton Choices – Late Crop Removal and Extended Terms” – A fixed price per hectare ($401) that is “is waived if [the] crop is removed due to hail, drought or other adverse conditions or events” and with a later fixed date for payment (31 July 2013).176

(c) “Cotton Choices – End Point Royalties for cotton” – A fixed price per bale of harvested and ginned cotton lint ($50/227kg bale) paid monthly.177

Where a farmer (or “Grower”) elects the “Cotton Choices – End Point Royalties for Cotton” fee then the following term applies:

Upon harvesting the Grower shall deliver all seed cotton produced on the Farm Unit to a Monsanto designated ginning organisation. Monsanto shall inform the Grower of such designated ginning organisations from time to time. The Grower shall be responsible for making the necessary arrangements with the designated ginning organization for ginning the seed cotton. The Grower shall bear the costs of delivering the seed cotton to the designated
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Ginning organization and the costs of ginning the cotton.178

The farmer is also required to inform the “designated ginning organisation” of information to identify the farmer179 that will be used to cross match the identifying information180 and report on the farmer’s delivered harvest.181 The farmer is then required to pay the EPR according to the harvest delivered and measured as units of bales of ginned cotton lint ($50/227kg bale).182 The agent of the owner of the proprietary elements invoices the farmer for the EPR.183

Grains Research and Development Corporation (GRDC)

The GRDC184 receives levy funding from the Commonwealth185 for “the industry concerned with the production, processing, manufacture, distribution and sale of grains”.186 The GRDC also receives matching funding from the Commonwealth for some of the research and development activities.187 The functions of the GRDC include “to investigate and evaluate the requirements for research and development”, “to co–ordinate or fund the carrying out of R&D activities that are consistent with the annual operational plan prepared by the Corporation and in force at the time” and “to facilitate the dissemination, adoption and commercialisation of the results of research and development”.188 The GRDC is a Commonwealth authority under the Commonwealth Authorities and Companies Act 1997 (Cth) with various obligations to the Minister for Agriculture, Fisheries and Forestry and the Commonwealth Parliament.189

As a part of the GRDC’s operations there is an actively supported breeding program, albeit the GRDC has not had the same involvement in recent times. In the early 2000s, the GRDC moved to encourage market-based breeding programs and established a series of companies dedicated to plant breeding: Australian Grain Technologies Pty Ltd established in 2002; HRZ Wheats Pty Ltd established in 2003; and InterGrain Pty Ltd established in 2007.190 GRDC has also entered joint ventures (such as Arista Cereal Technologies Pty Ltd) and invested in other plant breeding enterprises (such as Canola Breeders Western Australia Pty Ltd).

As at 2012, GRDC retains significant shareholdings in Australian Grain Technologies Pty Ltd (39 per cent), HRZ Wheats Pty Ltd (18 per cent), Arista Cereal Technologies Pty Ltd (21 per cent), InterGrain Pty Ltd (27 per cent), and Canola Breeders Western Australia Pty Ltd (39 per cent).191 GRDC also remains involved in pre-breeding activities192 and a range of other activities associated with breeding that “support effective competition by Australian grain growers in global grain markets, through enhanced profitability and sustainability”.193 GRDC has also retained some breeding activity for minor crops where EPRs are not considered to be feasible.194

Of particular interest for our purposes has been the GRDC’s role in advocating EPRs and implementing the institutional changes to enable EPRs through its strategy to “[c]oordinate a national grains R&D agenda and portfolio” by “[w]ork[ing] with partners to tackle industry-wide issues such as … value chain issues, including end point royalties”.195 Particularly important has been GRDC’s role in:

(a) Streamlining the contracts between PBR/patent holders and growers – On the purchase of a variety covered by EPRs the grower enters into a contract with the PBR/patent holder that allows the PBR/patent to be exploited and establishes the obligation to pay the EPR. At this stage, there are different contracts for each of the participating PBR/patent holders that are made available through the website http://varietycentral.com.au. For example, Australian Grain Technologies Pty Ltd provides an Industry Standard PBR License Agreement that grants the licence, allows use, imposes obligations to keep records, make reports and pay EPRs, together with the EPR obligations including authorising the EPR to be collected.196

(b) The adoption of EPR collection practices across the grains industry – The adoption of a common Grower EPR Harvest Declaration Form that identifies the grower with a unique identity on the National Grower Registry.197 The declaration form then collects data about the total grain harvested, amounts of grain used on-farm, amounts stored future sales and amounts saved.198 The grower then uses the forms to calculate the EPR amounts payable with the amounts being either deducted from payments to the grower on delivery of the crop or invoiced to the grower by a royalty manager.199 The major growers have also now agreed to use a single entity, SeedVise Pty Ltd, to negotiate and collect EPRs.200
The provision of variety performance information for growers to make informed choices about varieties – A website providing “access to independent results on the performance of recently released grain and field crop varieties from trials conducted across Australia”.201 This site provides the data that allows EPR varieties to be compared with non-EPR varieties to determine whether the additional EPR is worthwhile for the particular grower.

As a consequence of these arrangements, most new wheat varieties available in Australia are subject to EPRs and the GRDC continues to actively promote EPRs (in part through the EPR Steering Committee).202

Discussion

Plants pose a problem for commerce – in some circumstances, the plant itself is both the product (the harvested materials) and the means of producing the product (the propagating materials). This means that buying the plant also buys the potential to make the plant and continue making the plant, potentially dulling the incentive to make and sell better plants because the innovator cannot capture and appropriate the values of the improvements.203

For success in commerce, these different attributes of the plant need to be separated.204 For outcrossing plants (such as maize), there is a natural means of exclusion in that future generations of the plant tend to lose the desirable traits (hybrid vigour). For self-crossing and asexually propagated plants (such as wheat and sugar cane respectively), there is no natural means of exclusion and this has spawned the need for legal means of excludability in the form of intellectual property applying to the plants (the propagating materials) and their products (the harvested materials) – the legally enforceable “exclusive rights” in certain dealings with the plant and its products.

In Australia, the PBR Act has attracted the most attention for plant intellectual property, albeit the Patents Act remains important, and may be increasingly important as patents have broadly similar “exclusive rights” without the exemption for farm saved seeds found in the PBR Act205 and the limitation of the “exclusive rights” to “propagating material” (and some “harvested material”) rather than applying all parts and components of the plant variety.206

The analysis in this article shows that for both patent and PBR protected plants an EPR requires the “exclusive rights” coupled with a contract. The “exclusive rights” limit dealings with the plants and their products and the contracts then provide the machinery for the imposition and collection of the EPRs. The significance of the analysis in this article is to demonstrate that to make EPRs work requires both “exclusive rights” and the development of specific collaborative institutional arrangements through the RDCs. The analysis of the various RDCs shows that the leadership of the CRDC and the GRDC in the cotton and grains industry respectively has had a significant effect on the adoption of EPRs. These examples also demonstrate the coordinating role of these RDCs (and HAL) in promoting and educating about EPRs, and then developing the contracting and information resources to implement EPRs.

The CRDC provides a model for dealing with patents (and PBRs) and EPRs, and the GRDC provides a model for dealings with PBRs and EPRs. EPRs are, however, not suitable for all sectors, with the GWRDC and rootstocks and the FWPA and trees being good examples of, respectively, plant varieties that have no harvested materials on which to impose an EPR or taking too long to grow to effectively collect an EPR. Despite the apparent successes for EPRs there remain some hurdles to achieve more successful EPR arrangements for breeders.

Some of these are now addressed.

One of the challenges faced by EPRs in the grains industry was the deregulation of bulk wheat export marketing under the Wheat Export Marketing Act 2008 (Cth) and the Wheat Export Accreditation Scheme 2008 (Cth)207 and of non-bulk wheat export (in bags and containers) under the Wheat Marketing Amendment Act 2007 (Cth). The effect of this deregulation was to remove the single-desk export and marketing and in its place accredit numerous exporters so that breeders moved from dealing with a single exporter to collect the EPRs to dealing with a multitude of exporters and a multitude of collection points.208 To a large extent, this has been resolved through developing collaborative institutional arrangements: a unique identity on the National Grower Registry; a common Grower EPR Harvest Declaration Form founding the billing/invoicing arrangements; streamlined contracts made available through the website http://varietycentral.
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...com.au; and independent variety performance information made available to growers.

The positive outcome has been to effectively demonstrate the basic requirements for a workable and effective EPR that might be broadly applied across the different plant breeding sectors. At a minimum, this requires a means of identifying growers using the protected plant varieties, a means of tracking the growing activities of growers using the protected plant varieties and acceptable contracts that bind growers within the EPR tracking and collecting scheme. The elegance of the wheat industry example is that the different and competing entities involved from growers to wheat handlers have been able to agree to sufficiently uniform arrangements for the EPR system to work in practice. This is undoubtedly a model for the expansion of EPRs into other agricultural sectors.

There remain, however, weaknesses in the existing EPR scheme whereby some EPRs are not being paid to PBR (and patent) holders:209

A number of factors may contribute to inaccurate or mis-declaration of grain variety at point of delivery. Factors include industry structure, end point use (animal or human food) and lack of incentive for growers to accurately declare variety identity. Mis-declaration may also be inadvertent due to the complexity of variety audit systems. Other specific factors include:

- Difficulties associated with tracking and establishing ownership of the seed.
- Grain from several varieties may be mixed on farms during harvest and storage activities.
- Grain is often intermingled with other grain soon after delivery at the accumulation point based on the variety declared and some physical and chemical characteristics of the grain.
- Many grain varieties are closely related, have many attributes in common and are particularly difficult to distinguish on appearance.
- Considerable paperwork is often required by growers and/or others making it too difficult or onerous to comply with multiple EPR systems.
- Errors in varietal declaration occur due to the exercise of farm saved seed provisions on a variety for several years.
- The current differences in the level of EPR among varieties would appear to encourage flagrant mis-declaration of variety identity.
- Some 660,000 deliveries of grain are made by farmers to grain accumulation entities around Australia each year.

Subsequently, enforcement measures against infringers may be very difficult because of the structure and practices of receival systems (and lack of a robust varietal identification).210

In addressing these problems the Advisory Council on Intellectual Property (ACIP) considered that variety identification was critical for an effective EPR scheme and that under the PBR Act there was no positive obligation to knowingly declare a PBR protected variety as such.211 The ACIP considered that, if various consumer and fair trading laws were insufficient to make a knowing declaration that avoided paying an EPR illegal, then “the PBR Act should be amended to make such an act an infringement of PBR”.212 The Australian Government’s response was that the existing provisions of the Competition and Consumer Act 2010 (Cth) involving misleading and deceptive conduct, false representations about the characteristics of goods and false and misleading representations about goods were sufficient.213 The same comments might equally apply to the Patents Act where protected varieties’ materials are improperly identified.

The ACIP also considered the circumstances in which the PBRs’ “exclusive rights” could not be efficiently enforced because of the costs of tracing large numbers of growers’ royalty obligations, and the significant amounts of “harvested material” that is sold directly to other than traders and bulk-handlers (such as millers, maltsters, ethanol producers, and other end users), or used as livestock feed on-farm and in feed-lots.214 The ACIP also identified that, in many instances, those best placed to collect the EPR were not exercising a PBR and so could not be obliged to collect the EPRs for the breeders.215 The ACIP considered extending the “exclusive rights” to include a “use right” and a “purchase right”, eventually recommending against a “use right”216 and in favour of a “purchase right”.217 The proposed “purchase right” would apply to declared taxa only and be an addition “exclusive right” to “do, or license another person to do, the following acts in relation to the propagating material of the variety … purchase the material”218.
The “purchase right” was conceived as necessary to improve the EPR system:

A new “purchase” right would enable EPRs to be obtained from end users, traders and accumulators rather than growers. Because end users, traders and accumulators are less numerous and, as a general rule, more easily identified than growers, the existence of a purchase right would reduce transaction costs and probably increase compliance levels.\(^{219}\)

Another measure that the ACIP recommended to enhance the EPR system was clarification that “harvested material” that is also “propagating material” be considered “propagating material” for the purposes of the “exclusive rights”.\(^{220}\) There was some confusion about this matter following the *Cultivaust Pty Ltd v Grain Pool Pty Ltd* decisions.\(^ {221}\)

The Australian Government’s response to the ACIP’s recommendations was to accept that the PBR Act be amended to clarify that “harvested material” that is also “propagating material” be considered “propagating material” for the purposes of the “exclusive rights”,\(^ {222}\) and reject the “purchase right”.\(^ {223}\) The reason for rejecting the “purchase right” was because the problems could be resolved through contracts and that “[EPR] arrangements are evolving and are having greater acceptance across the grains industry” so that, at this stage, the change was not necessary.\(^ {224}\) The amendment to the PBR Act clarifying the meaning of “harvested material” is still pending.

Another (minor) concern for EPRs are the so-called “closed loop contracts”. Essentially, the PBR Act requires that the plant variety be available to the public at large. The PBR Act provides, in part:

1. Subject to [a certificate that the variety has no direct use as a consumer product], the grantee of PBR in a plant variety must take all reasonable steps to ensure reasonable public access to that plant variety.
2. Reasonable public access to a plant variety covered by PBR is taken to be satisfied if propagating material of reasonable quality is available to the public at reasonable prices, or as gifts to the public, in sufficient quantities to meet demand.\(^ {225}\)

The problem for EPRs is that the contracts imposing the EPR system operate by ensuring that all the PBR-ed materials are available subject to the restricted contract. This could run counter to the requirement that propagating material of reasonable quality is available to the public at reasonable prices, or as gifts to the public, in sufficient quantities to meet demand.\(^ {226}\) The threshold of public access is uncertain, and arguably a contract imposing EPRs when making a variety publicly available is not reasonable, albeit this does not appear to be a concern or limit to the present EPR arrangements.\(^ {227}\)

Another concern of growers has always been whether the increased EPRs are actually getting back to the breeders.\(^ {228}\) While there is not a lot of publicly available analysis, there has been some insight from recent analysis of barley varieties in Western Australia. The Western Australia Government through the Department of Agriculture and Food commits funds, together with the GRDC and Grain Pool Pty Ltd, to a *Barley Breeding Project* and a *Barley Improvement Project*. Together, the projects are directed to developing new barley varieties with have improved desirable traits and then assisted growers to integrate these improved varieties into their production systems. As a case study, this demonstrates the adoption of EPRs and the return of the amounts paid to further breeding programs.

Essentially, an analysis of the program over the period 2000/01 to 2006/07 showed the declining use of the non-EPR variety “Stirling” (65 per cent of total Western Australian production in 2000/01 to 21 per cent in 2006/07) and its replacement by the non-EPR variety “Gairdner” (released in 2000 and 23 per cent of production), and the EPR varieties “Baudin” (released in 2003) and “Hamelin” (released in 2004 and 10 per cent of production) and “Vlamingh” (released in 2006).\(^ {229}\) The price paid for delivered barley (harvested materials) depended on the variety and quality: “Stirling” attracted no premiums or EPRs; “Gairdner” attracted a variety premium of $5.00 per tonne and a protein premium of $2.50 per tonne and no EPRs; “Baudin” attracted a variety premium of $7.00 per tonne and a protein premium of $5.00 per tonne and EPRs of $3.00 per tonne for malting barley and $1.00 per tonne for feed barley; “Hamelin” attracted a variety premium of $7.00 per tonne and a protein premium of $5.00 per tonne and EPRs of $3.00 per tonne for malting barley and $1.00 per tonne for feed barley; and “Vlamingh” variety premiums had not been determined as at the time of the study it was yet to be planted and EPRs of $3.50 per tonne for malting barley and $1.50 per tonne for feed barley.\(^ {230}\)
During the 2000/01 to 2006/07 period of the Barley Breeding Project the five-year average price was $240.00 per tonne for malting barley and $200 per tonne for feed barley. As a rough and generalised estimate, this means that for the EPR varieties (“Hamelin” and “Baudin”) the EPR as a proportion of the harvest price was approximately 1.25 per cent for malting barley and 0.5 per cent for feed barley. Alternatively, the EPR was about $6.18 per hectare for malting barley and $2.03 per hectare for feed barley. The total EPRs collected for the period 2000/01 to 2006/07 was $3.58 million of which the Department of Agriculture and Food received $2.1 million and this was invested back into the ongoing Barley Breeding Program. The other EPR amounts collected also appear to have gone towards breeding programs.

Whether this example reflects the broader practices is not certain. Perhaps some indication of the potential for amounts that might be extracted as profits (after some amounts are set aside for breeding programs) is the recent acquisitive interest in Australian seed companies. This reflects a broader consolidation among transnational corporations and the increasing networking (mostly through cross-licensing agreements) among these entities. As examples, Vilmorin & Cie (a wholly owned plant breeding subsidiary of Limagrain Holdings) has purchased a 25 per cent stake in Australian Grain Technologies Pty Ltd; Monsanto Company has purchased a 20 per cent stake in InterGrain Pty Ltd; and Dow AgroSciences Australia (a subsidiary of Dow Chemical Company) has purchased a 50 per cent stake in HRZ Wheats Pty Ltd. This does not confirm that these breeding entities spawned by the GRDC and its collaborators will not continue to invest their EPRs in breeding programs. It does, however, show that these larger life sciences companies see them as desirable entities and this might, at least in part, be because the locking-in of EPR contracts has the potential to extract higher returns from seed sales than were previously available without EPRs. The ready increase in EPRs suggests this is at least a possibility.

Perhaps the more important immediate analysis in evaluating the benefits or otherwise of EPRs is to return to the original policy objectives of adopting and regulating for PBRs in Australia. The key driver of PBR protections in Australia was the need to access foreign plants and the decision by owners of foreign grants of rights not to release their plants in Australia without protections such as PBRs. While “[t]here are other mechanisms available for stimulating private plant breeding such as subsidies, bonuses, gratuities, trade marks, and so on, these would not give protection to owners of overseas varieties”. The other driving factor was to promote a private sector plant breeding capacity with the incentive of a PBR encouraging and enabling the private sector to invest and make viable plant breeding businesses. The EPR is one of the mechanisms that facilitates the appropriation of the benefits to the PBR and patent holders and is advocated, particularly in the grains and horticulture industries, because EPRs:

help to reduce up-front costs to growers, encourage uptake of varieties, overcome loss of sales through farmers’ privilege and share the risk of crop failures between PBR owners and growers.

There is no doubt that in some sectors EPRs have been extraordinarily successful and eagerly adopted by those sectors. The GRDC and grains and the CRDC and cotton are, as the analyses in this article demonstrate, role models. Other sectors have been less successful to date, and for some sectors, such as FWPA for the forest industry products and GWRDC for grapes, EPRs may not be an appropriate mechanism.

For all sectors promoting and adopting EPRs, however, there remain some potential future problems for plant breeding as a consequence of drawing closer to the immediate interests of the private sector and away from the broader interests of government. This is a loss of the long-term cross cutting research that is required both to found future research and deliver a sustainable industry. The particular problems are likely to be the concentration of private breeding because of economies of scale resulting in less plant variety diversity, and an increase in seed prices because of private sector market power through consolidation. There is also a requirement for the Australian Government to recognise that where EPR collection is difficult the consequence is likely to be an under-investment in germplasm protection and development, and plant breeding. This probably accounts for the ongoing interest of the RDCs, including the CRDC and the GRDC, in plant breeding programs, and in particular pre-breeding.

See, for example, International Business Machines Corporation v. Commissioner of Taxation (2011) 91 IPR 120, [8]-[9], per Bennett J.

These EPRs in the context of plants are also called “Crop Improvement Royalties.” This was the early terminology used to promote these royalties emphasizing that the royalty was a return on breeding investment: see, for example, Howard Carr, “Crop Updates – The Crop Improvement Royalty”. Available at: http://www.agric.wa.gov.au/PC_007711.html. Accessed: 7 March 2013.


Advisory Council on Intellectual Property (Final Report), above n4, p.64.

Patents Act 1990 (Cth), s.3 and sch.1 (standard patent). Notably, “innovation patents” are not available for plants and the biological processes for the generation of plants: ss.3 and 18(3) and sch.1 (innovation patent).

Patents Act 1990 (Cth), s.13(2).

Patents Act 1990 (Cth), s.3 and sch.1 (exploit).

See Patents Act 1990 (Cth), s.18.


Plant Breeder’s Rights Act 1994 (Cth), s.3 (PBR).

Plant Breeder’s Rights Act 1994 (Cth), s.3 (plant variety).

Plant Breeder’s Rights Act 1994 (Cth), s.20.

Plant Breeder’s Rights Act 1994 (Cth), s.11. A note was added to this section by amendment: see Plant Breeder’s Rights Amendment Act 2002 (Cth), s.3 and sch.1 (item 3).

Plant Breeder’s Rights Act 1994 (Cth), s.12.

Plant Breeder’s Rights Act 1994 (Cth), s.13.


Plant Breeder’s Rights Act 1994 (Cth), s.15.

Plant Breeder’s Rights Act 1994 (Cth), s.16.

Plant Breeder’s Rights Act 1994 (Cth), s.17.

Plant Breeder’s Rights Act 1994 (Cth), s.18.

Plant Breeder’s Rights Act 1994 (Cth), s.19.

Plant Breeder’s Rights Act 1994 (Cth), s.23.

Plant Breeder’s Rights Act 1994 (Cth), ss.14(2) and 17(1).

Plant Breeder’s Rights Act 1994 (Cth), s.14(1).

Plant Breeder’s Rights Act 1994 (Cth), s.15.

No taxes are presently declared.

Plant Breeder’s Rights Act 1994 (Cth), s.17.

Caltivasant Pty Ltd v Grain Pool Pty Ltd (2004) 62 IPR 11, 48. per Mansfield J.

Caltivasant Pty Ltd v Grain Pool Pty Ltd (2004) 62 IPR 11, 48-49, per Mansfield J. Some doubt has been expressed about this proposition: see Caltivasant Pty Ltd v Grain Pool Pty Ltd (2006) 67 IPR 162, 174, per Finn, Emmett and Bennett J. See also Advisory Council on Intellectual Property, above n4, pp.72-77.


Department of Primary Industry (Plant Variety Rights), ibid., p.1.

See Commonwealth, Parliamentary Debate, House of Representatives, 8 October 1986, 1648-1653 (John Kenin, Minister for Primary Industries).


See Primary Industries and Energy Legislation Amendment Act 1990 (Cth), ss.26-33; Primary Industries and Energy Legislation Amendment Act (No 2) 1989 (Cth), s.3 and sch.1; Primary Industries and Energy Legislation Amendment Act 1989 (Cth), s.3 and sch.1.

Plant Breeder’s Rights Act 1994 (Cth), ss.2 (commencement) and 78 (repeal).


Compare Plant Variety Rights Act 1987 (Cth), s.12 with Plant Breeder’s Rights Act 1994 (Cth), s.11.


Plant Breeder’s Rights Act 1994 (Cth), ss.14(1)(b) and 15(c).

Commonwealth, Parliamentary Debate, Senate, 13 March 2002, 693 (Kay Patterson, Minister for Health and Ageing), Plant Breeder’s Rights Amendment Act 2002 (Cth), s.3 and sch.1.

Plant Breeder’s Rights Act 1994 (Cth), s.18(1) before the Plant Breeder’s Rights Amendment Act 2002 (Cth), s.3 and sch.1 (item 4).

Plant Breeder’s Rights Act 1994 (Cth), s.18(1) after the Plant Breeder’s Rights Amendment Act 2002 (Cth), s.3 and sch.1 (item 4).


See Intellectual Property Laws Amendment (Raising the Bar) Act 2012 (Cth), s.3 and sch.6 (items 104-108): Statute Law Revisions Act 2011 (Cth), s.3 and sch.1 (item 92): Statute Law Revisions Act 2010 (Cth), s.3 and sch.1 (item 39) and 5 (item 137): Crimes Legislation Amendment (Serious and Organised Crime) Act (No 2) 2010 (Cth), s.3 and sch.11 (item 15); Personal Property Securities (Conventional Amendments) Act 2009 (Cth), s.3 and sch.2 (items 16 and 17); Intellectual Property Laws Amendment Act 2006 (Cth), s.3 and sch.11 (items 1 and 2), 12 (items 5-7), 14 (items 1-3) and 15 (items 2 and 3); Agriculture, Fisheries and Forestry Legislation Amendment (Application of Criminal Code) Act 2001 (Cth), s.3 and sch.1 (item 244); Agriculture, Fisheries and Forestry Legislation Amendment Act (No 2) 1999 (Cth), s.3 and sch.1 (items 1-12); Public Employment (Consequential and Transitional) Amendment Act 1999 (Cth), s.3 and sch.1 (items 735); Agriculture, Fisheries and Forestry Legislation Amendment Act (No 1) 1999 (Cth), s.3 and sch.5 (items 1-6).

The Plant Breeder’s Rights Amendment Act 2002 (Cth), s.3 and sch.1 (item 4) was an amendment that confirmed that the trading of commodities that eventually became food were subject to PBR and royalties and not an exception: see Explanatory Memorandum, above.
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n67, pp.7-9. While this did not directly affect EPR it was considered at the time to “facilitate commercial arrangements based on the [Plant Breeder’s Rights] Act 1994 (Cth), including through a system of end point royalties” (p.11).

50 See Plant Breeder’s Rights Act 1994 (Cth), s.11.

51 See Plant Breeder’s Rights Act 1994 (Cth), ss.14(1) and 15.

52 See Plant Breeder’s Rights Act 1994 (Cth), ss.14(1b) and 15(b).

53 Plant Varieties Act 1987 (Cth), ss.12(1) and (3).

54 Plant Breeder’s Rights Act 1994 (Cth), ss.11, 14(1) and 15. This is consistent with the International Convention for the Protection of New Varieties of Plants (1991), Arts 14(2) and 15(2).

55 Primary Industries and Energy Research and Development Act 1989 (Cth), s.149.

56 See Plant Breeder’s Rights Act 1994 (Cth), s.23(1).

57 See Plant Breeder’s Rights Act 1994 (Cth), ss.14(1b) and 15(b).


63 For a more detailed account, see Lawson, above n12.


65 See ibid.

66 See ibid., p.4.

67 See ibid., p. 5.

68 For an overview of governmental involvement and programs, see generally Industry Commission, Research and Development, Report No. 44 (ACPS, 1995).


73 See Productivity Commission, above n70, pp.23-34.

74 Sugar Research and Development Corporation Regulations 1990 (Cth), reg.4.

75 Primary Industries and Energy Research and Development Act 1989 (Cth), reg.5.

76 Sugar Research and Development Corporation Regulations 1990 (Cth), reg.7.

77 Primary Industries (Excise) Levies Act 1999 (Cth), ss.7 and sch.24 (cl 3).

78 Primary Industries (Excise) Levies Act 1999 (Cth), ss.7 and sch.24 (cl 4); Primary Industries (Excise) Levies Regulations 1999 (Cth), reg.5 and sch.24 (cl 2).


80 See Horticulture Marketing and Research and Development Services (Repeal and Consequential Provisions) Act 2000 (Cth), s.7 (repeal of the Horticultural Research and Development Corporation Act 1987 (Cth)).

81 Horticulture Marketing and Research and Development Services Act 2000 (Cth), s.9.

82 Horticulture Marketing and Research and Development Services Act 2000 (Cth), s.16(1).

83 Primary Industries (Excise) Levies Act 1999 (Cth), ss.7 and sch.15 (cl 20).

84 Primary Industries (Excise) Levies Act 1999 (Cth), ss.7 and sch.15 (cl 4); Primary Industries (Excise) Levies Regulations 1999 (Cth), reg.5 and sch.15 (cl 2-28).

85 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Cattan Research and Development Corporation Regulations 1990 (Cth), reg.4.

86 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Grants Research and Development Corporation Regulations 1990 (Cth), reg.4.

87 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Grape and Wine Research and Development Corporation Regulations 1991 (Cth), reg.4.

88 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Sugar Research and Development Corporation Regulations 1990 (Cth), reg.4.

89 Primary Industries and Energy Research and Development Act 1989 (Cth), s.9(1).

90 Forest and Wood Products Australia Limited ACN 127 114 185; Forestry Marketing and Research and Development Services Act 2007 (Cth), s.11(1). Formerly the Forest and Wood Products Research and Development Corporation: see Forest and Wood Products Research and Development Corporation Regulations 1993 (Cth), reg.5; Forest and Wood Products Research and Development Research Corporation (Repeal) Regulations 2007 (Cth), reg.3.

91 Horticulture Australia Limited ACN 095 566 108; Horticulture Marketing and Research and Development Services Act 2000 (Cth), ss.9(1) and (2). Formerly the Horticultural Research and Development Corporation: see Horticultural Research and Development Corporation Act 1987 (Cth), s.6; Horticulture Marketing and Research and Development Services (Repeal and Consequential Provisions) Act 2000 (Cth), ss.7 and sch.1.

92 Forest and Wood Products Australia Limited ACN 127 114 185; Forestry Marketing and Research and Development Services Act 2007 (Cth), s.11(1).

93 See Forestry Marketing and Research and Development Services Act 2007 (Cth), ss.4, 8(1), 8(2) and 11(1); Primary Industries (Excise) Levies Act 1999 (Cth), ss.7 and sch.10 (cl 2 and 3); Primary Industries (Excise) Levies Regulations 1999 (Cth), reg.5 and schs.10 (cl 1) and 27 (d.b.3).

94 Forest Marketing and Research and Development Services Act 2007 (Cth), s.8(2).

95 Forest Marketing and Research and Development Services Act 2007 (Cth), s.8(1); Commonwealth of Australia ABN 24 113 085 695 and Forest and Wood Products Australia Limited ABN 75 127 114 185, Agreement 2012-17 (Department of Agriculture, Fisheries and Forestry, 2012), cl.6.

96 Forest Marketing and Research and Development Services Act 2007 (Cth), s.8(1); Commonwealth of Australia ABN 24 113 085 695 and Forest and Wood Products Australia Limited ABN 75 127 114 185, Agreement 2012-17 (Department of Agriculture, Fisheries and Forestry, 2012), cl.6.

97 Forest and Wood Products Australia, Annual Report 2007-2008 (Forest and Wood Products Australia, 2008), p.2. See also Forest and Wood Products Research and Development Corporation Regulations 1993 (Cth), reg.5; Forest and Wood Products Research and Development Corporation (Repeal) Regulations 2007 (Cth), reg.3.

98 Forest and Wood Products Australia (Annual Report), ibid., p.4.

99 These include Department of Agriculture, Fisheries and Forestry, National and Rural Research and Development Priorities (Department of Agriculture, Fisheries and Forestry, 2007) and the Department of Agriculture, Fisheries and Forestry, Least Principles and Guidelines (Department of Agriculture, Fisheries and Forestry, 2009): Commonwealth of Australia ABN 24 113 085 695 and Forest and Wood Products Australia Limited ABN 75 127 114 185, Agreement 2012-17 (Department of Agriculture, Fisheries and Forestry, 2012), cl.2 (Guidelines).

100 Agreement 2012-17, ibid., cl.6.1.

101 See ibid., cl.1 and 6.4 (Research and Development).

102 A list of funded projects is set out in the Annual Reports: see, for example, Forest and Wood Products Australia, Annual Report 2011/12 (Forest and Wood Products Australia, 2012), p.94; Forest and Wood Products Australia, Annual Report 2010/11 (Forest and Wood Products Australia, 2011), pp.65-66, and so on.
105 Agreement 2012-17, above n99, chs.2 and 8.4.
106 ibid., cl.9.
107 Forest and Wood Products Australia (Annual Report 2011/12), above n102, p.38; Forest and Wood Products Australia, Annual Operations Plan 2012/13 (Forest and Wood Products Australia, 2011), p.15.
109 Agreement 2012-17, above n99, cl.10.1 and sch.2.
110 See Forest and Wood Products Australia (Annual Report 2011/12), above n102, Forest and Wood Products Australia (Annual Report 2011/11), above n102, and so on.
112 Plant Breeder’s Rights Act 1994 (Cth), s.22(2).
113 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Grape and Wine Research and Development Corporation Regulations 1991 (Cth), reg.4.
114 Primary Industries and Energy Research and Development Act 1989 (Cth), s.5 and 6; Grape and Wine Research and Development Corporation Regulations 1991 (Cth) reg.s 4 and 5(3); Primary Industries (Exeise) Levies Act 1999 (Cth), s.7 and schs.13 (chs 5 and 6) and 26 (chs 4 and 5); Primary Industries (Exeise) Levies Regulations 1999 (Cth), reg.5 and schs.13 (cl 1) and 26 (cl 2).
115 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Grape and Wine Research and Development Corporation Regulations 1991 (Cth), reg.s 3 and 4.
116 Primary Industries and Energy Research and Development Act 1989 (Cth), s.30(1).
117 Primary Industries and Energy Research and Development Act 1989 (Cth), s.11.
121 Plant Breeder’s Rights Act 1994 (Cth), s.22(2).
122 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Cotton Research and Development Corporation Regulations 1991 (Cth), reg.4.
123 Primary Industries and Energy Research and Development Act 1989 (Cth), s.5 and 8; Sugar Research Development Corporation Regulations 1990 (Cth), reg.s 4 and 5(1); Primary Industries (Exeise) Levies Act 1999 (Cth), s.7 and sch.24 (chs 3 and 4); Primary Industries (Exeise) Levies Regulations 1999 (Cth), reg.5 and sch.24 (cl 2).
124 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Cotton Research and Development Corporation Regulations 1991 (Cth), reg.s 3 and 4.
125 Primary Industries and Energy Research and Development Act 1989 (Cth), s.11.
126 See, for example, Sugar Research and Development Corporation, Annual Report 2011-2012 (Sugar Research and Development Corporation, 2012), ii; See also Lawson, above n116, 151-171.
127 See, for example, Sugar Research and Development Corporation, Annual Operational Plan 2012-2013 (Sugar Research and Development Corporation, 2012), pp.36-40.
128 Primary Industries and Energy Research and Development Act 1989 (Cth), s.9.
129 Primary Industries and Energy Research and Development Act 1989 (Cth), s.5 and 9; Rural Industries Research and Development Corporation Regulations 2000 (Cth), reg.s 26(3), 29(1) and 41(3); Primary Industries (Exeise) Levies Act 1999 (Cth), s.7 and schs.21 (chs 2 and 3), 23 (chs 2 and 3) and 27 (cl 2013); Primary Industries (Exeise) Levies Regulations 1999 (Cth), reg.5 and schs.23 (cl 2 and 27 (cl 39.2).
130 Primary Industries and Energy Research and Development Act 1989 (Cth), s.9(2); Rural Industries Research and Development Corporation Regulations 2000 (Cth), reg.6(1).
131 Primary Industries and Energy Research and Development Act 1989 (Cth), s.30(1).
132 See, for example, Rural Industries Research and Development Corporation, Annual Report 2011-2012 (Rural Industries Research and Development Corporation, 2012), 3. See also Lawson, above n116, 151-171.
133 These include wildflowers and native plants, tea trees, and rice: Rural Industries Research and Development Corporation, Annual Report 2011-12 (Rural Industries Research and Development Corporation, 2012), 87, 92, 115 and 122, respectively. Other programs include quinoa and weeping grass: Rural Industries Research and Development Corporation, New and Developing Plant Industries: RIRDC Completed Projects in 2011-12 and Research in Progress at June 2012 (Rural Industries Research and Development Corporation, 2013), 42 and 43, respectively.
134 Rural Industries Research and Development Corporation (Annual Report 2011-12), Ibid., 88.
136 Horticulture Australia Limited ACN 095 566 108; Horticulture Marketing and Research and Development Services Act 2000 (Cth), s.9(1).
137 Horticulture Marketing and Research and Development Services Act 2000 (Cth), ss.4, 9 and 16(1); Primary Industries (Exeise) Levies Act 1999 (Cth), s.7 and sch.15 (chs 3 and 4); Primary Industries (Exeise) Levies Regulations 1999 (Cth), reg.5 and sch.15 (chs 2.4-16.4, 17.5, 18.6, 19.4-21.4, 22.5, 23.5, 24.4, 25.5, 26.4 and 27.8 and 28).4.
138 Horticulture Marketing and Research and Development Services Act 2000 (Cth), s.16(1).
139 Horticulture Marketing and Research and Development Services Act 2000 (Cth), s.12(1).
140 Horticulture Marketing and Research and Development Services Act 2000 (Cth), ss.4 and 16(2).
143 ibid., cl.s1 and 7.4.
144 A list of current projects is set out in the Annual Reports identifying a variety of breeding programs: see Horticulture Australia Limited, Annual Report 2012 (Horticulture Australia Limited, 2012) pp.33 (apple), 41 (peach), 46 (cactus apple), 52 (macadamia), 59 (papaya), and so on.
145 Deed of Agreement, above n142, cl.12.1(c).
146 See ibid., cl.12.3.
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Levies Act 1999 (Cth), s.7 and sch. 5 (cls.2 and 3); Primary Industries (Excludes) Levies Regulations 1999 (Cth), reg.5 and sch.5 (cl.3).

151 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8; Cotton Research and Development Corporation Regulations 1991 (Cth), regs.3 and 4.

152 Primary Industries and Energy Research and Development Act 1989 (Cth), s.301.

153 Primary Industries and Energy Research and Development Act 1989 (Cth), s.11.

154 See, for example, Cotton Research and Development Corporation, Annual Report 2010-11 (Cotton Research and Development Corporation, 2011), iv. See also Lawson, above n.116, 151-171.


156 See, for example, National Land & Water Resources Audit, Signposts for Australian Agriculture – The Australian Cotton Industry (National Land & Water Resources Audit, 2008), 18; Cotton Research and Development Corporation, Annual Report 2003-2004 (Cotton Research and Development Corporation, 2004), 77.

157 See Cotton Research and Development Corporation (Annual Report 2010-11), above n.154, 90; Cotton Research and Development Corporation, Annual Report 2009-10 (Cotton Research and Development Corporation, 2010), 123; and so on.


163 Cotton Research and Development Corporation (Annual Report 2010-11), ibid., 90; Cotton Research and Development Corporation, Annual Report 2009-10 (Cotton Research and Development Corporation, 2010), 123; and so on.


165 See, for example, Cotton Research and Development Corporation (Annual Report 2006-07), above n.154, 49 and 69.

166 Essentially the CRDC funded breeding programs conducted by the CSIRO to conventionally improve the plant varieties and to introduce insert resistance and herbicide tolerance genes: see, for example, Cotton Research and Development Corporation, Annual Report 1999-2000 (Cotton Research and Development Corporation, 2000), 30-31 and 35; Cotton Research and Development Corporation, Annual Report 2000-2001 (Cotton Research and Development Corporation, 2001), 20-21; Cotton Research and Development Corporation, Annual Report 2003-2004 (Cotton Research and Development Corporation, 2004), 75-78; and so on.

167 See, for example, Cotton Research and Development Corporation (Annual Report 1999-2000), ibid., 17. See also Cotton Research and Development Corporation (Annual Report 2010-11), above n.154, 9-10.

168 Other proprietary elements are also available including Bayer CropScience’s “LibertyLink” see Cotton Seed Distributors Pty Ltd, 2012 Variety Guide (Cotton Seed Distributors Pty Ltd, 2012), 7-10.

169 Monsanto Australia, Cotton Essentials Guide 2012/2013 (Monsanto Australia, 2012), 11, (cl.3.1(d)).

170 ibid., 11 (cl.3.1(c)).

171 ibid., 11 (cl.3.1(e)).

172 ibid., 12 (cl.3.1(f)).

173 ibid., 12 (cl.3.1(g) and (h)).

174 ibid., 12 (cl.3.1(k) and (l)).

175 ibid., 13-14 (cl.6(d)). See also Monsanto Australia, Cotton Choices: You’re in Control, Product Guide 2012/13 (Monsanto Australia, 2012), 2.

176 Monsanto Australia (Cotton Essentials Guide 2012/2013), above n.169, 14 (cl.6.2)). See also Monsanto Australia (Cotton Choices), ibid., 3.

177 Monsanto Australia (Cotton Essentials Guide 2012/2013), ibid., 14 (cl.6.3)). See also Monsanto Australia (Cotton Choices), ibid., 3.

178 Monsanto Australia (Cotton Essentials Guide 2012/2013), ibid., 14 (cl.6.3(b)).

179 ibid., 14 (cl.6.3(c)).

180 ibid., 14 (cl.6.3(d)).

181 ibid., 14 (cl.6.3(e)).

182 ibid., 14 and 16 (cls.6.3(f) and 11.3(d)). See also Monsanto Australia, Cotton Choices, above n.175, 3.

183 Monsanto Australia (Cotton Essentials Guide 2012/2013), ibid., 17 (cl.11.4(c)).

184 Primary Industries and Energy Research and Development Act 1989 (Cth), s.8.

185 Primary Industries and Energy Research and Development Act 1989 (Cth), s.5 and 8; Grains Research and Development Corporation Regulations 1990 (Cth), reg.4 and 5(1); Primary Industries (Excludes) Levies Act 1999 (Cth), s.7 and schs.4 (cls.2 and 5). See also Cotton Research and Development Corporation, Annual Report 1999-2000, above n.154, 12 (cls.6.3(b)).

186 Primary Industries and Energy Research and Development Act 1990 (Cth), cls.3 and 4.

187 Primary Industries and Energy Research and Development Act 1989 (Cth), s.301.

188 Primary Industries and Energy Research and Development Act 1989 (Cth), s.11.


191 Grains Research and Development Corporation, Annual Report 2010-11 (Grains Research and Development Corporation, 2011), 84.

192 See, for example, Grains Research and Development Corporation, Annual Report 2010-11 (Grains Research and Development Corporation, 2011), 16. “Pre-breeding” means “is R&D intended to contribute to genetic improvement for a trait or traits of economic value. It is often undertaken outside a commercial breeding program, but with the intent of providing improved germplasm, screening technology or breeding methods. Pre-breeding may include gene discovery, trait identification, developing markers, phenotypic screens and information generation”: Primary Industries Standing Committee – R&D Sub-committee, Grains Industry: National Research, Development and Extension Strategy (Primary Industries Standing Committee, 2011), 3.

193 Grains Research and Development Corporation, Annual Report 2010-11 (Grains Research and Development Corporation, 2011), ibid., 84.

194 See Grains Research and Development Corporation, Annual Report 2010-11 (Grains Research and Development Corporation, 2011), 46-55. See also Grains Research and Development Corporation,
212 Advisory Council on Intellectual Property (Final Report), ibid., n210, 4-5.
213 ibid., 4.
214 ibid.
215 Plant Breeder’s Rights Act 1994 (Cth), s.19.
216 Plant Breeder’s Rights Act 1994 (Cth), s.19(2).
217 This was a matter that was not raised in the review of enforcement of the PBR Act, see Advisory Council on Intellectual Property (Final Report), above n6, 125-129.
219 ibid., 14.
220 ibid.
Through these wide variety of interactions several unique and dynamic biocultural contexts have emerged. One such example is of the Dongria Kondhs (or the Kondhs of the Hills) tribal community living in the Niyamgiri Hills in the eastern part of India. The Niyamraja is the creator and protector of the Dongria Kondhs.¹ For the Dongrias, the revered hill ranges symbolise the land of the Niyamraja.² The Dongria Kondh’s association with the region emanate from their worldview that Niyamgiri is the source of the rivers, forests and food that sustains them.³ It also is a landscape where wild fauna and flora thrives which needs the respect and freedom to coexist.⁴ Being dwellers of the forests, their main source of livelihood is forest hill slope agriculture in settled farming and also shifting cultivation (locally known as podu).⁵ They mainly grow horticultural crops like pineapple, mango, jackfruit, turmeric, ginger, papaya and so on.⁶ They also depend extensively on the collection of non-timber forest produce (NTFP) from the patches of forests that surround their hamlets.⁷ For the biodiverse farmers of Deccan Andhra in the southern part of India, varieties of major and minor millets are what they consider crops of truth (satyam pantalu). They are grown with virtually no external inputs at all, surviving on the available sub-soil moisture and on very small farms. In an area where there is annual drought, these crops are hardy. So, the poorest are able to get a yield that is at least enough to fill their stomachs. Moreover, when a combination of these crops are grown on even highly “unfertile” land, they are able to give a lot of nutrients back to the soil, while using some for cultivation. Many of these crops have nitrogen fixing and other properties. They don’t require chemical inputs; organic manure prepared in a back yard with material available in village commons is all that is needed.⁸ The knowledge around seed saving, seed conservation and farming multiple crops in one single small farm not only has historical roots but also serves as an assertion of food sovereignty. They have also evolved cultural practices which coincide with the seasonality of these crops and would not continue if the future of these crops is threatened.

In the above context, an understanding the political economy of trade related research and development, commercial utilisation⁹ and intellectual property becomes important. At the same time, it needs to be borne in mind that policy responses are continuously also responding to the growing biocultural context in India

Biocultural Context in India

Biological diversity (or biodiversity) as understood in simple terms is the diversity of life and life forms including plants, animals and microorganisms. The complex web or flora and fauna present themselves through a variety of interactions and ecological configurations when they come together in one or another habitat type, be it forest, marine, desert, grassland and so on. While part of this interplay of species is devoid of human factors, there are many other ecological habitats that have evolved over time with the interference and interdependence of human beings. When such interactions take place, most often human beings have adapted and created knowledge systems to deal with the use and co-existence on one hand and adaptation and modifications on another. Over the years, the relationship between human beings and biodiversity have evolved both at the individual level as well as through application of collective wisdoms. For instance, rural communities living in different regions are dependent on either wild or cultivated ecosystems for forest, farm, riverine or marine livelihoods. This could be both at individual/family level for food security, sale in local markets or conservation of common spaces which are to be used by one or many community formations residing in a geographical region.
concern around loss of biodiversity and knowledge systems associated with it. Climate-resilient crops, medicinal plants and foods are fast disappearing. At the same time, the vast cultural diversity which has evolved around this biodiversity is also being lost rapidly. With this loss also goes the related ancestral knowledge as well as the scope for its future evolution.

Locating Knowledge

Envisioning “indigenous” and “traditional” knowledge in the Indian context leads one to some existing in-depth debates around these terms which are prevalent in India as well as the world over. First, is with respect to the use of the world “traditional”. Popular definitions of traditional knowledge refer to the longstanding wisdom, knowledge, teachings and its practice which are linked to specific indigenous and local communities. It is also acknowledged as being the intellectual heritage of these communities and therefore generated debates around the requirement of consents prior to this knowledge being accessed by anyone outside of this knowledge ethos. However, it also needs to be borne in mind that this knowledge is both contextualised as well as dynamic in nature. Communities, local healers, farmers, fisherfolk, forest dwellers and others who have been using and applying these knowledge forms are themselves constantly innovating and thereby becoming part of the overall evolution of this knowledge. This is why there have been some critiques around the use of the term traditional knowledge. In the author’s experience, during NGO and government-organised discussions and meetings in countries such as India it has been argued that referring to knowledge as traditional does not do justice to its dynamism and also tends to freeze that knowledge in a particular timeframe. While it is valuable to contrast the traditional with the modern in tracing the source of holistic approaches with the more material and utilitarian approaches to nature, it should be with the objective of limiting the growth of ancient wisdoms and its relevance to current time.

The second is linked with the issue about indigeneity tensions in India. The word ‘indigenous’ relates to recognising the first settlers of a nation and distinguishing them from the colonisers who came after. In post-colonial scenarios in countries such as Canada, Australia and the US, where the colonisers came and did not leave, this distinction has been very critical in the shaping the policy and rights based discourses in the country. It has also been important to acknowledge the massacres and violence that colonisers had unleashed against the original inhabitants of a landscape. Countries such as India are not settler colonies in the true sense and have seen many instances of colonisers plundering the country, ruling for different time periods and then being replaced by new colonisers. It has therefore been difficult to attribute the sharp contrast as in the case with the countries mentioned earlier. At one level, it is the adivasis (or tribal communities who are the closest contenders of indigenous identity) are considered to be first settlers and the Aryans (current day Hindus) the first colonisers. However, the Aryans and many other marginalised communities see themselves as being around for centuries before the next generation of colonisers such as the Mughals or various European conquerors that ruled over them. These epochs were not devoid of their own conflicts and tensions. At the same time, it is also important to bear in mind that the establishing of the adivasi identity (the Indigenous) is a part of a more recent expression of a counter political assertion against exploiters since the 1920s-1930s. While this was first set out against the British colonial government, it continues to be also directed at the manner in which India’s development policies are designed and implemented to date.

For the purpose of this article, knowledge within the biodiversity regime is being referred to as local or people’s knowledge. This is also because other than the above-mentioned factors, this reference would also relate to the manner in which the biodiversity law itself refers to knowledge within the legal framework, to be discussed later.

Premise of the Current Knowledge-Use-Regulation Interface

Before analysing the regulatory design around how biological diversity and related knowledge systems are accessed and utilised in India for purposes of research, commercialisation, utilisation or intellectual property, it is important to state some presumptions and premises on which the laws for biodiversity have been designed in India.

The first of these relates to the fact that privatisation and commercial use of local or people’s knowledge is both desired and is also inevitable. Two decades ago, the conversations around the use of knowledge and biological resources for commercial and trade purposes was a much-debated issue in international
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negotiations and treaties. While the growing biopiracy needed to be checked, there was not an outright emphasis that use of knowledge in trade would need to be encouraged. Recent discussions and protocols with the Convention on Biological Diversity (CBD) do not refer to these fundamental debates but align themselves with the necessity of trade to encourage biodiversity conservation.\(^{17}\)

The second issue draws on an understanding that reliance on databases, both digitised and codified would be a means to achieve conservation and continuation of knowledge. At the same time, they are important for making local knowledge relevant at a global scale so that countries can respond to intellectual property claims. Such models primarily rely on validation of local knowledge through principles of western science, without which such knowledge might only be a lesser belief or know-how. The creation of the Traditional Knowledge Digital Library (TKDL) in India is based on the above logic which has been critiqued for encouraging biopiracy rather than being able to check it.\(^{18}\)

It also becomes critical to distinguish database and book-keeping techniques related to people’s knowledge from informed processes of documentation. The latter draws on conversations and participatory engagements with communities and encourages them to present, systematise and safe-keep the knowledge around both the resource and its use within the formats and language which is most comprehensible at the local level. Such documentation might be in written form or through oral messaging and has the central objective of community empowerment and building strong relationships with the existing biocultural ethos being alongside establishing protocols of future use.

The third premise relies on the philosophical base that once access to knowledge takes place, it needs to be made socially acceptable and beneficial. Many discourses which have critiqued the extractive nature of research or trade have also responded with solutions which create systems of benefit sharing for which one or a few benefit claimers would need to be identified.\(^ {19}\) In such a regulatory framework, holders of knowledge, growers of food and custodians of biodiversity would be treated as those who would need to be compensated. Stretching this argument a bit further, terms such as “fair” and “equitable” have been prefaced to the policy discourse. The ultimate form of such fair and equitable practice would be to take the full and free prior informed consent of the people or communities who are recognised by governments and users as being owners of the knowledge.

The fourth and final aspect which warrants discussion is the nature of rights and responsibilities which are created for all of the above to operate. The rights of Indigenous and local communities and their assertions are now accepted statements of intent not just by activists but also governments and international congregations. These rights of communities to hold and conserve their knowledge and the responsibilities of the nation states to ensure that these rights are protected, are most often than not within the frameworks of transaction. In the biodiversity law, rights and consents operate within the framework where access and benefit sharing are established as future acts. These rights and responsibilities cannot be used towards establishing ethical claims or questioning whether access should take place in the first instance.

India’s Biodiversity Law and Regulatory Regime around Knowledge

Coming into Being of the Law

The process of drafting India’s Biological Diversity Act 2000 took 10 years from the country first signing the Convention on Biological Diversity in 1992 and then ratifying it in 1993. After a decade-long process it was expected that the outcome would be strong legislation for the conservation of wild and domesticated diversity as well as the knowledge associated with it. The same framework, it was thought, could check biopiracy which had increased with the growing importance of biological material in trade and commerce. This, in fact, was one of the foremost reasons why national level regulatory regimes had been argued for with the CBD framework.

However, the first draft of the Biological Diversity Bill (1997), put together by a committee headed by Dr. M.S. Swaminathan, had a different design. It primarily sought to set up a framework to regulate access to biological resources and traditional knowledge, fundamentally accepting that these were indeed tradable commodities. By the time the Bill became law, some additional conservation and knowledge protection related provisions were included. This was primarily due to the intervention and responses of longstanding and
influential civil society actors who had pushed for the broad-basing of the biodiversity to be true to its first two objectives of conservation and sustainable use; with equitable benefit-sharing being the third. However, even as one reads the law and its corresponding 2004 Rules today it emerges that the primary emphasis has been towards detailing of the regulatory framework to govern the manner in which access to biological material and related knowledge would be determined and who would have the authority to both decide and lay out the terms for the same.20

Legal Framework and Community Control

In order to achieve its objectives, the drafters of the Biological Diversity Act 2000 have envisaged a three-tier institutional structure: a National Biodiversity Authority (NBA); State Biodiversity Boards (SBBs); and Biodiversity Management Committees (BMCs) at village and municipal levels.21 It presents clear procedures for access to biodiversity which are further elaborated through the 2004 Rules, and also has clauses related to conservation and knowledge protection. The Union Ministry of Environment and Forest (MoEF) is the nodal ministry.

Before this legislation came into being, access to biological resources for research, commercial utilisation and seeking intellectual property rights (IPRs) was an unregulated domain. Today, there is a system clearly centralised in design. If any foreign entity (defined in the Act)22 wants to access India's biodiversity (wild or cultivated) and/ or associated traditional knowledge, approval of the NBA is mandatory.23 The NBA needs to “consult” the relevant local BMCs before granting an approval.24 In the case of an Indian entity, they need to only advise the SBB which, in turn, can put forward some conditions. If IPRs are involved, approval from the NBA needs to be sought.25 Quite interestingly, collaborative research projects between a foreign and Indian entity involving transfer of plants, animals or germplasm outside India are exempted from seeking approval under this Act.

When the Act was notified,26 it produced mixed responses. To begin with, there were clear loopholes in the form of special privileges to Indian companies over foreign entities. In the case of such collaborations when Indian companies are in the forefront, the procedures to be followed are far milder. Another significant critique was the fact that the law accepted the existence and furthering of IPRs by virtue of including provisions where applications related to IPRs would be considered and decided upon by the NBA.27

But one of the most debated issues with the biodiversity law is with respect to community control, especially in the light of whether or not they are considered to be the real custodians of biodiversity and knowledge. Further, what role do local communities have in the national law to further the objectives of conservation, sustainable use and benefit sharing? The law defines roles of communities primarily through the formation of BMCs. The provisions of the Act give these BMCs broad roles of conservation, documentation and management of biodiversity with no specific decision making powers. These roles are further diluted as a result of the Biological Diversity Rules 2004 prescribing the main role for the BMCs to be that of preparing People's Biodiversity Registers (PBRs). Communities through these BMCs become data providers for the documentation carried out by those with “scientific” expertise to validate community knowledge.28

In more recent times, the NBA has prepared databases and formats which are to be executed by SBBs and appointed technical expert groups.29 Experience of the implementation of the law has indicated that this form of databasing has become the primary tool of the state boards and the national authority to chronicle biological resources and knowledge that is to be used to establish prior art in case of patent applications. They are also the baseline for establishing benefit-sharing arrangements. There is little evidence in the last 10 years of the existence of the biodiversity law, that the PBRs prepared through standardised or modified formats has led to conservation or has succeeded in checking biopiracy, both of which were to be foremost on the biodiversity law’s stated agenda.30
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Where is the Power? A Comparative Picture

<table>
<thead>
<tr>
<th>Institution</th>
<th>Regulation of access and IPRs</th>
<th>Conservation</th>
<th>Documentation</th>
<th>Benefit Sharing</th>
</tr>
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<tbody>
<tr>
<td>NBA</td>
<td>Permission to be sought by foreign nationals before accessing biodiversity or traditional knowledge or seeking IPRs on the same. Indian nationals to seek permission for IPRs.</td>
<td>Advise the Central Government on matters relating to the conservation of biodiversity and sustainable use and protection of people’s knowledge.</td>
<td>NBA’s expert committee has designed the format based on which documentation to be carried out by BMCs (see section 4 for more details).</td>
<td>Ensure and determine equitable sharing of benefits arising out of the use of access between person applying for approval, local bodies concerned and the “benefit claimers” (defined in the Act).</td>
</tr>
<tr>
<td>SBB</td>
<td>To be intimated by Indian nationals before accessing biodiversity and/or traditional knowledge. Can suggest prohibitions and conditions.</td>
<td>Powers to restrict activities in the state which are likely to be detrimental to biodiversity.</td>
<td>Guide the BMCs to document information related to biodiversity and traditional knowledge in PBRs, with the help of a Technical Support Group.</td>
<td>No role prescribed.</td>
</tr>
<tr>
<td>BMC</td>
<td>To be consulted by NBA and SBB at the time of grant of permission or intimation.</td>
<td>Broad conservation role in the Act, not further defined.</td>
<td>Document resources and knowledge with the help of Thematic Support Group and guidance of SBB using the format prepared by NBA expert committee.</td>
<td>No role prescribed.</td>
</tr>
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</table>

Source: Kohli et al, 2009
Knowledge Emphasis in the Act

The Biological Diversity Act 2002 clearly sets out that one of the duties of the central government would be to “endeavour to respect and protect the knowledge of local people relating to biological diversity”.\(^31\) In order to do this, the NBA needs to take measures which may (not shall) include registration of such knowledge at the local, state or national levels. But most importantly, it allows for the NBA to develop a *sui generis* system for the protection of the knowledge referred to above.

The above provisions have their own operational issues. When it comes to setting out the agenda for knowledge protection, the NBA has largely relied on the process of registration, even though the requirement of that was optional. While the term ‘registration’ is not elaborated on in the main law, it is the Biological Diversity Rules of 2004 that introduce the idea of registers and databases as mechanisms to protect knowledge. In practice, this has been linked to the preparation of PBRs which has been discussed above.\(^32\)

There are impending and unresolved concerns related to the protection of the information recorded in the PBRs; copies of which are available at the village level as well as in digitised forms with the SBBs and NBA. There is currently no robust mechanism which would ensure that any theft or illegal access to the information gathered can be curbed.\(^33\) Moreover, the processes related to challenging any cases of theft of the information in the PBRs are extremely tedious and give little space and authority to local communities whose knowledge has been recorded in the registers.\(^34\)

This also then links to the point about making an attempt to execute a strong and *sui generis* system for the protection of knowledge, despite the inherent loopholes and implementation concerns. Recommendations are still in the process of being formulated by the NBA. At meetings conducted by non-governmental organisations through 2008, the NBA was requested to initiate action on traditional knowledge protection. The text of the draft Protection, Conservation and Effective Management of Traditional Knowledge relating to Biological Diversity Rules, 2009 has not been publicly debated, revised or finalised.\(^35\) Questions have also been raised that these draft Rules, which present an open conservation focus, do not shy away from knowledge registration as a method for protection. At the same time, critiques have emerged as to whether or not these proposed Rules are within the scope of the Biological Diversity Act 2002 even though they might present a better model\(^36\) for regulation.

The other important provision related to knowledge in the legislation is that the regulatory provisions put forward in the Act do not apply to the local people and communities of the area, including growers and cultivators of biodiversity, and *vaids* and *hakims*, who have been practising Indigenous medicine. The experience of the Madhya Pradesh State Biodiversity Board (in central India) is important to refer to here. According to interviews conducted with members of the Board by the author in 2012, it is extremely difficult to regulate the movement or transfer of resources with local healers being outside the purview of the Act.

According to them, many local healers today often act as small traders who are linked to larger pharmaceutical or research institutions. Their attempt to seek information and compliance from accessors of this material and knowledge has also faced several challenges.\(^37\)

Operationalising Benefit-sharing

India’s Biological Diversity Act has clear definitions of who constitutes “benefit claimers”, once access to biological material or knowledge takes place. They are conservers of biological resources and their by-products, creators and holders of knowledge and information relating to the use of such biological resources, innovations and practices associated with such use and application.\(^38\) The Act also elaborates on what can comprise fair and equitable sharing of benefits once access is permitted and benefit claimers identified.\(^39\) These include grant of joint ownership of IPR, transfer of technology, location of production, research and development units in the area of access, and creation of an association of Indian scientists, benefit claimers and the local people with research and development in biological resources and biosurvey and bioutilisation (also defined in the law).\(^40\) There are also direct financial mechanisms that can be proposed as benefit sharing which include setting up of venture capital funds and payment of monetary compensation to the benefit claimers as the NBA may deem fit.\(^41\) The NBA also is mandated under the law to frame guidelines to effect benefit sharing which are currently in draft form and yet to be finalised.\(^42\)

Ten years after the Act, India has 100 ABS agreements to show. These were publicly announced by the Secretary, MoEF in July 2012 at a CBD meeting in New Delhi. It is yet to be seen if monetary collections from these 100 agreements going into the National Biodiversity Fund
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translating into real “benefits” for at least 100 local communities in India, though the experience so far indicates otherwise. The challenge with respect to many of these agreements is to reach out to the legitimate local “benefit claimers” who are yet to be fully identified in most cases. Moreover, it raises the larger question around whether or not knowledge itself should or can be attributed to one or multiple sets of individuals in India’s diverse biocultural context. Ironically, this will be important to do to create the necessary contractual arrangements which can be fitted within the global Access and Benefit-sharing (ABS) framework which India has both signed and ratified.44

Making the Regulation Work

The earlier sections of this article set out the unique biocultural context in India within which biodiversity based knowledge is located and regulated. However, in order to frame and operationalise the legal contours of how these are to be managed, used and benefit-shared would require some methodological and bureaucratic prerequisites. Some of these would necessarily draw their emphasis on the premises elaborated on above, and also build upon the everyday challenges of implementing a law which is considered to be here to stay.

One of the first things that the biodiversity law has begun to do through the processes of registration and databasing is to freeze knowledge in such a way that they can be made relevant to private and commercial use agreements. Each plant will have a use and each use an owner with who could be consulted prior to an access taking place, and with whom a benefit-sharing contract can be created. In order for information or data to be made relevant to either IPR or material transfer agreements they need to be legible and understandable in globally accepted formats. The dynamic, evolving, fluid and widespread nature of biodiversity or knowledge will not be relevant. As James C. Scott points out, the state often tries to make a society legible and to arrange population in ways that simplified the classic state functions of taxation, conscription and prevention of rebellion.45

The biodiversity regime also successfully manages to view custodians of knowledge through the narrow lens of being “benefit claimers”. For local communities to have a stake in the law and its implementation, they would need to establish themselves as those with whom benefits arising out of use of genetic material and knowledge would need to be shared. What this then sets into motion is a clear possibility of local conflict. Species-use related knowledge most often than not does not lie only with one individual or village; it cuts across local, national and even international territorial boundaries. For one or each set of people with whom benefit-sharing agreements are concluded it would be necessary to establish exclusive ownership of that knowledge or resource. This is antithetical to a livelihood based and biocultural relationships which have and continue to exist even today. The Biological Diversity Act and the International Regime (IR) on ABS would need this to change, if it were to be implemented.

Conclusion

Finally, for the biodiversity regime to work, it would require filtering out the intangible from policy and law. Ethical arguments and cultural associations would have little space as they cannot be measured. The Ex-Minister of State for the Environment, Jairam Ramesh, remarked during a lecture in May 2011: “What we cannot measure, we cannot monitor and what we cannot monitor we cannot manage”.46 The NBA and SBBs are convinced that the only way to make the Biological Diversity Act 2002 relevant to communities today is to convince them of the “benefits” (mostly monetary) that it would accrue to them,47 and that would be the only way to also ensure conservation.

1 N.C. Saxena, S. Parasuraman, P. Kant and A.Baviskar, Report of the Four Member Committee for Investigation into the Proposal Submitted by Orissa Mining Company for Bauxite Mining in Niyagiri, (Ministry of Environment and Forests, 16th August 2010)
2 ibid.
3 ibid.
4 ibid.
6 ibid.
7 ibid.
8 P. V. Sathesh, The Crops of Truth Farmers’ Perception of Agrobiodiversity in the Deccan region of South India, (Deccan Development Society, Andhra Pradesh, India)
9 India’s Biological Diversity Act 2000 defines commercial utilisation as “end uses of biological resources for commercial utilisation such as drugs, industrial enzymes, food flours, fragrance, cosmetics, emulsifiers, oleoresins, colours, extracts and genes used for improving crops and livestock through genetic intervention, but does not include conventional breeding or traditional practices in use in any agriculture, horticulture, poultry, dairy farming, animal husbandry or bee keeping”.
10 Secretariat of the Convention on Biological Diversity, Global Biodiversity Outlook 3 (Secretariat of the Convention on Biological Diversity) Montréal
The Convention on Biological Diversity (CBD) defines traditional knowledge as "the knowledge, innovations and practices of indigenous and local communities around the world. Developed from experience gained over the centuries and adapted to the local culture and environment, traditional knowledge is transmitted orally from generation to generation. It tends to be collectively owned and takes the form of stories, songs, folklore, proverbs, cultural values, beliefs, rituals, community laws, local language, and agricultural practices, including the development of plant species and animal breeds. Sometimes it is referred to as an oral tradition for it is practiced, sung, danced, painted, carved, chanted and performed down through millennia. Traditional knowledge is mainly of a practical nature, particularly in such fields as agriculture, fisheries, health, horticulture, forestry and environmental management in general."


Kohli and S. Bhutani, CHASING 'BENEFITS': Issues on Access to Genetic Resources and Traditional Knowledge with reference to India's Biodiversity Regime, (Kalpavriksh and WWF-India, New Delhi), p 28


s. 21 (1) to s. 21 (4) of the Biological Diversity Act, 2002

Kohli, M. Fareedi and S. Bhutani, 6 Years of the Biological Diversity Act (Kalpavriksh and GRAIN), p 63

Chapter X (Section s.41 (1) to s.41 (3) of the Biological Diversity Act, 2002 and s.22 of the Biological Diversity Rules, 2002

Under the law, permission will need to be sought from the NBA by all those people who are not citizens of India; a citizen of India, who is a non-resident as defined in clause (30) of section 2 of the Income Tax Act 1961; a body corporate, association or organisation which is a) not incorporated or registered in India or b) incorporated or registered in India under any law for the time being in force which is not controlled or managed by any Indian citizen from its share capital or management.

Chapter V (s.19, s.20, s.21) of the Biological Diversity Act, 2002

s. 41 (2) of the Biological Diversity Act, 2002

s. 6 (1) to s. 6 (4) of the Biological Diversity Act, 2002

India’s Biological Diversity Act was passed in Lok Sabha (House of People or Lower House of the Parliament) on 2nd December 2002 and Rajya Sabha (Council of States or Upper House of the Parliament) on 11th December 2002. It was gazetted in New Delhi on 5th February 2003 (New Delhi, the 5th February, 2003/Magha 16, 1924 (Saka))

K. Kohli, M. Fareedi and S. Bhutani, 6 Years of the Biological Diversity Act (Kalpavriksh and GRAIN), p 63

K. Kohli, M. Fareedi and S. Bhutani, 6 Years of the Biological Diversity Act (Kalpavriksh and GRAIN), p 63


s. 36 (5) of the Biological Diversity Act, 2002

Shalini Bhutani, Prized or Priced - Protection of India’s Traditional Knowledge related to Biological Resource and Intellectual Property, (WWF-India, Delhi, 2012)

K. Kohli, M. Fareedi and S. Bhutani, 6 Years of the Biological Diversity Act (Kalpavriksh and GRAIN) p 63.


Chapter I, s. 2 of the Biological Diversity Act, 2002

s.21 (2) of the Biological Diversity Act, 2002

Chapter I, s. 2 of the Biological Diversity Act, 2002

s.21 (2) of the Biological Diversity Act, 2002

K. Kohli and S. Bhutani, CHASING ‘BENEFITS’: Issues on Access to Genetic Resources and Traditional Knowledge with reference to India’s Biodiversity Regime, (Kalpavriksh and WWF-India, New Delhi), p 28

K. Kohli, M. Fareedi and S. Bhutani, 6 Years of the Biological Diversity Act (Kalpavriksh and GRAIN), p 63

K. Kohli and S. Bhutani , CHASING ‘BENEFITS’: Issues on Access to Genetic Resources and Traditional Knowledge with reference to India’s Biodiversity Regime, (Kalpavriksh and WWF-India, New Delhi), 2012 p 28.


See S. Ramdau, Whose access and whose benefit? The Nagoya Protocol and customary rights in India, In Biodiversity and culture: exploring community protocols, rights and consent, Participatory Learning and Action (PLA) No 65, (International Institute for Environment and Development (IIED) ed), United Kingdom. The main outcome of the CBD COP10 in the city of Nagoya, Japan is the Nagoya ABS Protocol. It is here that an IR on ABS was agreed upon by 193 countries. The IR contained in the Protocol lays down a text by which “benefits” arising out of any kind of use of biological material and associated traditional knowledge when accessed need to be followed through. But the question is whether it makes things any better for providers countries, and in doing so does it guarantee “benefits” to local communities or further conservation? India has ratified the Nagoya Protocol in October 2012 during the COP 11 deliberations in Hyderabad where India was the host country. However, the Protocol is yet to be operationalised.

James, C. Scott, Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed. (Yale University Press, New Haven, CT, USA 1998).


Nevertheless, recent incidents in Hong Kong relating to the promotion and sale of beauty and cosmetology products and services reveal the inadequacy of the TDO in dealing with false descriptions regarding services, price, accommodation and facilities, and other undesirable trade practices such as aggressive commercial practices, misleading omissions or bait advertising. In view of the shortcomings of the TDO, the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012 (Amendment Ordinance) was passed on 17 July 2012 to improve on and fill in the loopholes so as to strengthen protection offered to consumers. The Draft Enforcement Guidelines for the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012 has also been issued for consultation. Traders, however, are worried that the new offences and enhanced power of enforcement agencies created under the Amendment Ordinance may be too intrusive and have expressed their hope that reasonable constraints will be placed through the introduction of the Enforcement Guidelines.

The Trade Descriptions (Unfair Trade Practices) Amendment Ordinance 2012

The Amendment Ordinance was drafted with the aim to fill the existing voids of the TDO. The major changes introduced by the Amendment Ordinance are further elaborated below.

Extending the Coverage of the TDO

Protection under the TDO was restricted to goods and has been proven to be inadequate for Hong Kong’s service-oriented economy. A new section has been introduced under the Amendment Ordinance making it an offence to apply false trade description to service or supply, or offer to supply, to a consumer service to which such false description is applied.

However, that the Amendment Ordinance is not applicable to immovable properties and certain sectors that already have separate regulatory regimes. The extension of coverage to services is only confined to offences in relation to trade descriptions. The offences relating to the forgery of trade marks and the application of forged trade marks remain limited to goods only.

Expansion of Definition of “Trade Description”

The Amendment Ordinance extends the meaning of “trade description” to cover indications in relation to availability, compliance with specified or recognised standard, price, and liability to pay duty. Consumers are also to be protected against false or misleading endorsement information. Extra-territoriality

As online retailing has become the new consumption pattern, a new s.21A was added with the intention of catching cross-jurisdictional transactions and online transactions. The Amendment Ordinance will apply as long as the trader is in Hong Kong or has Hong Kong as its usual place of business, regardless as to whether they target consumers within or outside Hong Kong. In other words, internet traders who operate in Hong Kong will be caught even though they target overseas customers only.

New Offences under the TDO

Five new offences are created under the Amendment Ordinance. These strict-liability offences target sharp commercial practices directly.
connected with the sale or supply or promotion of goods or services by traders to customers.

**Misleading Omissions**

Traders commit the offence of misleading omissions if they fail to give consumers material information to make an informed transactional decision. This offence aims to prevent traders from omitting or hiding material information or providing information in an unclear or ambiguous manner.

“Material information” is broadly defined, and includes the main characteristics of products, identity of the trader, price and other additional charges and the like. In other words, whether information is material is to be judged on a case-by-case basis and traders will have to make their own assessment on how much or how little information should be revealed to consumers.

**Aggressive Commercial Practices**

This offence prohibits traders’ use of harassment, coercion and undue influence (including the use of physical force) to restrict or impair consumers’ freedom of choice and cause them to make a transactional decision which otherwise they would not have made. In deciding whether the practice adopted by the trader is aggressive, the court is entitled to take into any factors as it sees fit. It is therefore advisable for traders to cease promoting their goods or services when consumers have explicitly rejected their offer.

**Bait Advertising**

An advertisement by a trader to supply goods or services at a specified price will be an offence under s.13G of the Amendment Ordinance if there are no reasonable grounds for believing that they are able to supply at that specified price within a reasonable period of time and in reasonable quantities. This provision seeks to prohibit traders from using price as bait to entice consumers when in reality those products are only available for an unreasonably short period of time or in unreasonably small quantities. A prudent trader should therefore state clearly in the advertisement the period and quantity which the products will be available at that specified price or to procure a third person to supply an equivalent product.

**Bait-and-switch**

If a trader promotes or makes an offer to sell a product at a specified price but with an intention of promoting different products through different tactics, the trader commits an offence. The intention of the trader is a necessary element to be established for this offence.

**Wrongly Accepting Payment**

This offence is added to target the increasingly popular form of consumption of making pre-payments for online purchases or services packages. An offence is committed if the trader accepts payment for a product, not intending to supply it or only intending to supply another product at the time of accepting the payment. The intention of the trader at the time of accepting payment or consideration is a necessary element of this offence. If the trader cannot supply the product after accepting the pre-payment from consumers, the trader should take remedial actions, e.g. offer to supply an equivalent product or procure a third person to supply the specified or an equivalent product.

**Strengthening Enforcement Power and Enhancing Enforcement Regime**

**Additional Enforcement Power**

The Customs and Excise Department (Customs) is the principal enforcement agency under the TDO. The Amendment Ordinance confers concurrent jurisdiction on the Communications Authority in relation to commercial practices in the telecommunications and broadcasting services (together, the Enforcement Agencies).

In addition to the existing investigative and enforcement power, the Enforcement Agencies now have additional power to inspect books or documents kept by a trader in order to ascertain whether any offence has been or is being committed. The newly added power does not contain the requirement of “reasonable cause to suspect that an offence has been committed” and appears to give the power to the Enforcement Agencies to conduct random spot checks.

**Civil Compliance-based Mechanism**

The Enforcement Agencies are now empowered to accept undertakings under the new civil compliance-based mechanism from a trader whom the Enforcement Agencies believe has engaged, is engaging or is likely to engage, in conduct that constitutes an offence under certain provisions of the “fair trading sections”. The Enforcement Agencies can, with the consent of the Secretary of Justice, accept a written undertaking by the trader that they will not continue or repeat an offending conduct, or conduct of a substantially similar kind.
These undertakings must include an acknowledgement or admission of liability, a positive commitment of the trader to cease the infringing conduct and specific details of corrective measures that the trader would take. These undertakings will not be kept confidential but may be published in any form and manner. The duration of the undertaking will usually be two years, and if terms of the undertaking are breached, an injunction may be applied for.

If an undertaking is accepted, the Enforcement Agencies will not commence or continue investigation in relation to the subject matter of that undertaking; and legal proceedings cannot be brought or continue. However, acceptance of the undertaking can be withdrawn in certain circumstances, such as a material change of circumstances and a breach of terms of the undertaking. The Enforcement Agencies, after withdrawing their acceptance, may continue with the investigation and prosecution or seek an injunction from the court to restrain the infringing acts. A statement of any fact contained in the undertaking may be admitted in conclusive evidence of those facts in any proceedings.

Liability of Parties Involved

“Trader” is given a vague meaning under the Amendment Ordinance. The draft Enforcement Guidelines provide that a trader can be a natural person or a company. Directors, managers and principal officers of a company may have personal liability and be proceeded against if an offence is committed by the company.

The Draft Enforcement Guidelines for the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012

As can be seen from the above, the new offences created under the Amendment Ordinance are drafted widely and have broad coverage and the enhanced powers of the Enforcement Agencies may be intrusive. The Draft Enforcement Guidelines for the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012 (Draft Guidelines) were issued and their consultation ended on 17 March 2013. The Draft Guidelines are neither legally binding nor are they subsidiary legislation. They serve merely the purpose of setting out the objectives and basic principles adopted by the Enforcement Agencies and of providing guidance on the operation of the new provisions. No civil or criminal liability will be incurred for contravention of any part of the Draft Guidelines.

Public opinions submitted during the consultation period seem to show that the Draft Guidelines have failed to adequately address the vagueness and intrusiveness of the Amendment Ordinance. A number of insufficiencies of the Draft Guidelines together with suggestions are identified below.

Insufficient Guidance on What Constitutes a Breach and Failure to Provide Clarity to the Vagueness in Law and Terms

Many terms and offences in the Amendment Ordinance involve subjective assessment and interpretation which traders may find it hard to understand. The offence of misleading omissions is one such example. The test to be applied is the “transactional decision test”, which requires the traders to disclose “elements or information of the goods or services which might cause the average consumer to make a different purchasing decision”. The list of “material information” may become more difficult to ascertain if the products or services are complex with high degree of variability or customisation. The offence of aggressive commercial practices, as well as other terms such as “material information” and “average consumer”, also requires subjective assessment. The examples given in the Draft Guidelines are too broad and fail to clarify the relevant law or assist the public to understand them.

In this regard, it is suggested that more examples should be included in the Draft Guidelines to better demonstrate the assessment thresholds and their application in different circumstances. In addition to the existing examples of breaches of the fair trading sections, examples of conduct that will not be considered as a breach and explanation of the analysis and rationale adopted by the Enforcement Agencies should be provided. It may also be useful if the Enforcement Agencies can set out factors that they will take into consideration in deciding whether to undergo investigation or prosecution so as to give traders a brief idea on what to avoid and of what to be mindful. The Draft Guidelines may also set out some practical recommended practices that traders should adopt to avoid commission of an offence under the fair trading provisions.

The Draft Guidelines have also failed to deal with situations where customers choose not to receive the material information or other widely accepted and legitimate business practices such as discretionary or tiers of discount and gifts offered only when consumers press for bargains. It is also unclear whether subsequent conduct that results in
disclosure of the relevant information, such as the provision of opportunities to raise further queries or channels to find out details and particulars of the relevant good or services, will be sufficient to defend traders against liability.

**Failure to Provide Guidance on the Exercise of Enforcement Power**

Details and particulars of how Enforcement Agencies are going to put different enforcement tools into practice are not provided in the Amendment Ordinance. The public, especially traders, will need to rely on the Draft Guidelines to understand the likely consequences that they will face if an offence is committed.

Enforcement Agencies have a wide range of powers to enter premises, inspect and seize goods and documents. It appears that the Enforcement Agencies can carry out regular inspections of traders’ premises and spot checks even when there is no indication of breach. To maintain an appropriate balance between respecting privacy of traders and the protection of customers, the Draft Guidelines should explain if limits will be imposed or whether there will be any justification required for the exercise of such powers.

Further, apart from lists of non-exhaustive factors that the Enforcement Agencies may take into account when using different enforcement tools, the Draft Guidelines have not provided specific guidance on the priorities of their usage. For clarity and certainty, it is suggested that the Enforcement Agencies should set out in the Draft Guidelines the intended order of action that corresponds to the guiding principle of proportionality, i.e. to ensure that any enforcement action taken is proportionate to the extent of consumer detriment and the harm done to the community at large.

Enforcement Agencies should explore the feasibility of giving the relevant traders opportunity to take corrective measures, rather than to escalate enforcement actions immediately. For instance, it is suggested that the Enforcement Agencies may consider first issuing written warnings to the infringer and require them to take remedial measures within a prescribed time prior to commencing any civil and/or criminal enforcement actions. A transitional or grace period may also be introduced to allow time for traders to conduct review of their current business practices, as well as to provide training to the relevant personnel and ensure internal compliance of the law.

**Insufficient Guidance on the New Civil Compliance-based Undertaking**

The Civil Compliance-based undertaking is a new species of enforcement introduced by the Amendment Ordinance. The Draft Guidelines set out in detail the features of the undertaking and a list of unacceptable terms. As mentioned above, the undertaking requires an acknowledgement or admission of liability and the Enforcement Agencies have the right to publish the undertaking and to use the facts contained therein as conclusive evidence.

Traders have expressed their concern regarding the requirement of admission of certain facts and publication of the undertaking. To ease traders’ worries, it is suggested that circumstances under which an undertaking may be published and the extent of information that may be published should be set out in the Draft Guidelines. It may also be useful to provide that negotiation between traders and the Enforcement Agencies on the terms of the undertaking should be made on a “without prejudice basis” to prevent the Enforcement Agencies from using information obtained in the course of the negotiation against traders in the event that the undertaking is not accepted.

**Insufficient Guidance for Other Specific Sectors**

As mentioned above, the Communications Authority has concurrent jurisdiction with the Customs in the telecommunication and broadcasting sector. Nevertheless, apart from a brief introduction on the sanctions and powers available to the Enforcement Agencies, no specific guidance is given in the Draft Guidelines as to how “concurrent jurisdiction” of these Enforcement Agencies would be implemented in practice. It is unclear how the Communications Authority will be involved in relation to telecommunication and broadcasting cases.

**Conclusion**

The TDO and the Amendment Ordinance show the effort and determination of the Hong Kong Government to combat false trade descriptions and undesirable trade practices. The new offences and the enhancement of an enforcement regime are likely to have substantial deterrent effect and can hopefully curb existing undesirable trade practices. The addition of the new civil compliance-based undertaking mechanism provides a more effective
way of law enforcement that saves time and the cost of investigation and provides the opportunity for traders to take remedial steps before facing criminal sanctions.

Nevertheless, protection offered to consumers must also be balanced against the rights and interests of traders. The far-ranging extension of the Amendment Ordinance may catch innocent traders and some widely accepted commercial practices, thus creating an extra burden on traders to ensure compliance of the Amendment Ordinance. Given how broadly the law is drafted, the Enforcement Agencies should provide more guidance to traders to assist them in complying with the law.

The Draft Guidelines, albeit with good intention, are inadequate and insufficient to provide clear guidance to the public, and in particular, to traders. It is yet to be seen how the Hong Kong Government will respond to the public’s views on the Draft Guidelines. It is to be hoped that, after taking into consideration the comments from the public, genuinely useful enforcement guidelines will be issued for the better protection of consumers as well as recognition of the rights of traders.

Postscript

Public views and comments on the Draft Enforcement Guidelines were solicited during the consultation period which ended on 17 March 2013. A revised draft of the Enforcement Guidelines was published on 14 June 2013 and the final version (Final Version) was issued on 15 July 2013.

Revisions have been made to the Final Version in response to public opinions and the following insufficiencies in the Draft Enforcement Guidelines identified in this article have now been addressed:

**What Constitutes Breach and Clarity of Law and Terms**

One of the major complaints of the Draft Enforcement Guidelines was that they failed to clarify the relevant law or provide sufficient guidance to the public in understanding them. Taking into consideration the public’s concerns, the Final Version is revised with the addition of new examples and further elaborations. For instance, examples have been added to illustrate the concept of “average consumer”, and what is likely to constitute omission of material information to assist the public in understanding terms and offences that require subjective assessment. The Enforcement Agencies have also clarified in the public consultation report that a consumer’s decision to purchase and a consumer’s decision not to purchase are both transactional decisions and would be subject to the Amendment Ordinance.

The Final Version also includes some suggested good business practices to be adopted by the traders, such as providing opportunities for consumers to raise questions, and supplying sufficient product information through suitable means by making reference to the product specifications and direct consumers to visit the official websites.

The Final Version further clarifies the liability of the management, employees and agents of a trader by including new paragraphs setting out their potential liabilities and the available defences in more detail. A new example has also been included to aid the public in understanding the potential liability of the management.

**Exercise of Enforcement Power**

One of the insufficiencies in the Draft Enforcement Guidelines was that they had not provided any specific guidance on the priorities of enforcement actions. To address this issue, the Policy Statement (Part A) of the Final Version has been revised to set out in more detail how the Enforcement Agencies would prioritise their enforcement actions and how they would investigate complaints. It is now provided in the Final Version that unfounded and unmeritorious complaints would not be pursued and complainants will be requested to provide sufficient details and further information before the Enforcement Agencies take any enforcement actions.

Further, the public’s suggestion to allow opportunity for the traders to take corrective measures has been accepted and a new paragraph stating that the Enforcement Agencies may consider issuing warning or advisory letters to the traders in appropriate cases before taking any formal enforcement actions has now been added in the Final Version.

Nevertheless, the Enforcement Agencies have refused to provide for a transitional or grace period for traders. They considered that sufficient time has already been given to the business sector to comprehend the new legislative requirements during the consultation period of the Amendment Ordinance and the Enforcement Guidelines.
The New Civil Compliance-based Undertaking

Traders have expressed their concerns regarding the requirement of admission of certain facts and publication of the undertaking. To ease those concerns, it is now made clear in the Final Version that the negotiations on an undertaking will be conducted on a “without prejudice” basis. Nevertheless, the Final Version has yet to address the circumstances in which an undertaking may be published.

Other Specific Sectors

A new paragraph has been added in the Final Version to clarify the enforcement responsibilities of the Customs and the Communication Authority. It is now explicitly set out in the Final Version that the Communication Authority will take up cases in relation to the provision of licensed telecommunications services or broadcasting services and all other cases will be taken up by the Customs.

1 Sections 6 and 9 of the Trade Descriptions Ordinance (Cap. 362).
2 Section 7A of the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012.
3 Definition: see s.2(1): “trade description, in relation to service” of the Amendment Ordinance: A “trade description”, in relation to a service, is defined to mean “an indication, direct or indirect, and by whatever means given, with respect to the service or any part of the service including an indication of nature, scope, fitness for purpose, risks and price etc.”.
4 Such as the insurance and financial services sectors and registered professionals including accountants, legal practitioners, medical practitioners, medical practitioners, architects, engineers and estate agents, see Schedules 3 and 4, above n2.
5 ibid., s.2(1)(ca).
6 ibid., s.2(1)(eb).
7 ibid., s.2(1)(ec).
8 ibid., s.2(1)(ed).
9 ibid., ss.2(1)(ga) and 2(1)(gb).
10 “Commercial practice” is defined under s.2(1) of the Amendment Ordinance as “any act, omission, course of conduct, representation or commercial communication (including advertising and marketing) by a trade which is directly connected with the promotion of a product to consumers or sale or supply of a product to or from consumers, whether occurring before, during or after a commercial transaction (if any) in relation to a product”.
11 Section 13E, above n2.
12 ibid., s.13E(5), includes “any information about the product or the transaction which the average consumer would need in order to make an informed decision about the transaction”.
13 ibid., s.13E(4).
14 ibid., s.13E: The freedom of choice or conduct of a consumer under this offence is not confined to decisions on whether to make the purchase or not, but covers also purchase of a product at a much higher price or disadvantaged terms, or from one trader instead of another.
15 ibid., s.13G(3).
16 ibid., s.26A.
17 Such as refusing to show or demonstrate the product, refusing to take orders for the product, or demonstrating a defective sample of the product.
18 Section 13H, above n2.
19 ibid., s.26B.
20 Sections 4, 5, 7, 7A, 13E, 13F, 13G, 13H and 13I of the Amendment Ordinance are collectively referred to as the “fair trading sections” in the Draft Enforcement Guidelines.
21 Section 30L, above n2.
22 ibid., s.30L(5), e.g. to place them on its departmental website or make reference to it from time to time.
23 ibid., s.30L(6).
24 ibid., s.30M.
25 ibid., s.30N.
26 ibid., s.30O, may be brought at any time before the expiration of 1 year after the effective date specified in the notice given under s.30N(1).
27 ibid., s.30P.
28 ibid., s.2, includes “any person who is acting or purporting to act for the purposes relating to the person’s trade or business”.
30 ibid., Part 3 of Part B.
31 ibid., Part 4 of Part B.
32 ibid., see Parts 2 to 7 of Part B.
33 ibid., and s.15, above n2.
34 Paragraph 5 of Part A, above n29, setting out factors affecting the investigation priorities; Paragraphs 25 and 27 of Part A, above n29, setting out factors to be considered in applying for an injunction and instituting criminal proceedings, respectively.
35 Paragraph 5 of Part A, above n29.
36 ibid., paragraph 20 of Part A.
37 ibid., see Part 9 of Part B.
39 Para 3.33 of Part B, ibid.
40 Section B3, Annex II of the Public Consultation Report.
41 Para 3.17 of Part B, ibid.
42 Para 8.1, 8.8 and 8.9 of Part B, ibid.
43 Para 8.2 of Part B, ibid.
44 Para 8 and 9 of Part A, ibid.
45 Para 9 of Part A, ibid.
46 Para 12 of Part A, ibid.
47 Footnote under Paragraph 17 of Part A, ibid.
48 Para 4 of Part A, ibid.
General

The Intellectual Property Laws Amendment Bill 2013 was Introduced into Parliament on 30 May 2013

The key elements of this Bill include:

- Crown use of patents – The provisions for the Crown use of patents have been clarified. This should increase certainty and accountability.
- The TRIPs Protocol – The Patents Act 1990 (Cth) will be amended to implement the TRIPs Protocol.
- Plant breeder’s rights – The Federal Circuit Court will have jurisdiction to include plant breeder’s rights.
- Technical amendments – Minor corrections to the Patents Act 1990 (Cth) accepted recommendations to amend the Patents Act 1990 (Cth) to introduce: an objects clause to provide clarity in the interpretation of the Act; and a patentability exclusion to prevent the commercialisation of inventions that would be wholly offensive to the Australian public.

A consultation paper has been released to encourage discussion and seek views on the proposed amendments. Interested parties are invited to make written submissions by 27 September 2013.

Trade Marks

Amendments to the Trade Marks Office Manual of Practice & Procedure

Part 18 – Finalisation of Application for Registration – This part has been reviewed with minor changes to wording.

- Part 19A – Use of a Trade Mark – This part has been reviewed with minor changes to wording.

- Part 21 – Non-Traditional Signs – This part has been amended to reflect changes to s.41 contained in the Intellectual Property Laws Amendment (Raising the Bar) Act 2012 (Cth), which came into force on 15 April 2013.

- Part 22 – Section 41 Capable of Distinguishing – This part has been updated in respect of practice regarding names of streets, roads, districts and suburbs.

- Part 26 – Section 44 and Regulation 4.15A Conflict with Other Signs – Annex A1 has been expanded to provide further information about practice regarding marks consisting of given names and/or surnames.

- Part 51 – General Opposition Proceedings – This part has been amended to reflect changes due to the Intellectual Property Laws Amendment (Raising the Bar) Act 2012 (Cth).

- Part 60 – The Madrid Protocol – This Part has been amended to reflect changes due to the Intellectual Property Laws Amendment (Raising the Bar) Act 2012 (Cth).

SOUTH AUSTRALIA, VICTORIA and WESTERN AUSTRALIA

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In this edition, we report on a number of cases that highlight the importance of proper intellectual property rights management in the context of corporate groups and transfers of business, and the problems that can arise down the track in defending or prosecuting infringement proceedings if the identity of the proper owner is in doubt. And, a case about guano.

Insight SRC Pty Ltd v The Australian Council for Education Research Limited
[2013] FCAFC 62
(14 June 2013)

Copyright – damages – assessment of general damages where copyright is exploited by a bare licensee and not the copyright owner

The second appellant (Insight) was the copyright owner of a questionnaire known as the School...
Organisational Health Questionnaire (the Questionnaire). The Questionnaire was written by in 1992 by Dr Hart, an employee of the then Ministry of Education in Victoria. The trial Judge found that Dr Hart was nevertheless the owner of copyright in the Questionnaire rather than the Crown, as he and his supervisor had reached an agreement to that effect; see s.179 of the Copyright Act 1968 (Cth), modifying the effect of ss.35(6) and 176(2) of the Act. That particular finding was the subject of a cross-appeal, but was not disturbed.

Insight offered services using the Questionnaire, and did so in different capacities over time. Prior to October 2009, it used the Questionnaire as a bare licensee of Dr Hart and his family trust. In October 2009, however, copyright was assigned to the first appellant (Insight Holdings) and thereafter Insight became exclusive licensee of copyright in the Questionnaire. It was not until May 2011, shortly before proceedings were initiated, that Dr Hart’s rights in past and existing causes of action came to be assigned to Insight Holdings.

The trial Judge found that the respondent (ACER) infringed copyright in the Questionnaire between early 2006 and October 2009 as part of a project with Independent Schools Victoria (ISV). His Honour accepted that, if ISV had instead entered into an agreement with Insight in respect of the Questionnaire, Insight’s profit would have been $130,000.

His Honour also held, however, that Dr Hart could not have sought general damages under s.115(2) of the Act for that period because he was not personally conducting a business involving the use of the Questionnaire. His rights were limited to nominal damages, and accordingly that was the most that Insight could claim through the mechanism of the assignments. It was otherwise a bare licensee at the time, and did not itself accrue any rights of action against ACER. His Honour awarded only nominal damages as a result.

On appeal, the Full Court (North, Rares and Robertson JJ) was satisfied that the trial Judge erred in finding that Dr Hart would not have had a claim for general damages in respect of the period of infringement, which could later be assigned to Insight Holdings and enforced by Insight. It was not a contention that had been pursued at trial. Further, the evidence demonstrated Dr Hart’s support of Insight as bare licensee and the vehicle through which he sought to exploit the Questionnaire; he wanted Insight to benefit from his copyright. But for ACER’s infringement, it could be inferred that Dr Hart would have acted so as to secure a contract for Insight with ISV. As such, Dr Hart would have been entitled to receive the value of the benefit he had intended to impart – in this case, around $130,000.

Knott Investments Pty Ltd v Winnebago Industries, Inc
[2013] FCAFC 59
(7 June 2013)

Passing off and misleading & deceptive conduct – foreign company enjoying “spillover” reputation in Australia – effect of lengthy delay in bringing proceedings to enforce that reputation – wrongdoer builds up significant business during period of delay

From 1978 or 1982, the principals of the appellant (Knott) had been manufacturing and selling in Australia recreational vehicles under the name “Winnebago”. The respondent (Winnebago) had sold recreational vehicles in Australia under that name since 1959, but had not by 1978 sold them in Australia; one of Knott’s principals was aware of the Winnebago name through a visit to the US in the 1960s.

Knott’s activities came to Winnebago’s attention in 1985 and culminated in a “Settlement Agreement” in 1992. By that agreement, Knott agreed not to use Winnebago’s marks in any country other than Australia, but also agreed that Winnebago reserved entirely its rights in respect of Knott’s activities. Knott asserted the effect of that document entitled it to continue to use the “Winnebago” name and logo (and, indeed, it registered “Winnebago” as a logo in 1997). Winnebago argued that the document served to put Knott on notice of Winnebago’s rights. It was not until 2008 that Winnebago decided to enter the Australian market, however, and in 2010 Winnebago took action against Knott.

The Full Court did not disturb the trial Judge’s findings that, as at 1982, Winnebago enjoyed sufficient reputation in its name in Australia to found an action for misleading and deceptive conduct, and that Knott’s Australian trade mark should be removed (its registration being a clear breach of an express term of the Settlement Agreement). Allsop CJ accepted Knott’s argument on appeal that the correct date at which to assess the question was 1978 (when Knott’s principals commenced the business later taken on by Knott, there being ample evidence to support an inference that that business was transferred – albeit
informally – to Knott) but held that Winnebago’s reputation was sufficient at that earlier date as well.

The key issue on appeal was whether Winnebago’s delay in bringing proceedings affected its rights, and if so how.

The Full Court also did not disturb the trial Judge’s finding that the Settlement Agreement did not convey any representation that would support an estoppel. Each of Allsop CJ and Jagot J similarly rejected Knott’s argument that Winnebago’s long period of inaction supported an estoppel.

The Settlement Agreement made clear that any continued use of the “Winnebago” name by Knott was at its own risk, and its principal conceded that Knott might have to rebrand if Winnebago entered the market.

Winnebago’s delay in bringing proceedings was, however, relevant to the question of the relief it could receive. Laches, acquiescence and delay could not on the facts operate as a complete defence. Nevertheless, Allsop CJ held that it would be “unjust” to ignore the fact that over 25 years, and with Winnebago’s knowledge, Knott expended money and built up a business that did not entirely involve taking advantage of Winnebago’s name and reputation. Cowdroy J also accepted that, after such a long period of delay after the Settlement Agreement, Knott might reasonably have believed that Winnebago had no interest in promoting its business in Australia. Jagot J noted that Winnebago had “sat on its hands” and allowed Knott to build up a successful business, the reputation in which Winnebago would benefit from upon its entry into the Australian market.

Accordingly, Allsop CJ held (Cowdroy and Jagot JJ agreeing) that it was appropriate that any injunctive relief permit Knott to continue to use the “Winnebago” name and logo, provided that the distinction between its business and that of Winnebago was made clear. An appropriate disclaimer had to be clear on any vehicles Knott made in future, as well as in its advertising and promotional material.

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**REA Group Ltd v Real Estate 1 Ltd**

[2013] FCA 559  
(7 June 2013)

*Trade marks – image marks incorporating a domain name comprised of descriptive elements – presentation of similar domain names in internet search engine results – whether deceptively similar*

Passing off and misleading & deceptive conduct – internet domain names – similar domain names presented in internet search results – relevant class of persons – whether descriptive trading name acquired a secondary meaning – whether likelihood of deception

The applicant (REA) operates internet real estate “portals” at websites based on the domain names realestate.com.au (for retail property) and realcommercial.com.au (for commercial property), which also are the subject of composite trade mark registrations held by REA. REA’s business is very successful and its websites are the most popular of real estate portals directed to the Australian market. REA’s branding has become well-known in Australia, particularly the registered marks in suit:

![realestate.com.au](image1)

![realcommercial.com.au](image2)

REA also spends significant amounts on advertising each year, primarily focused upon search engine marketing and search engine optimisation or SEO. Both forms of promotion are directed towards increasing the position at which links to REA’s website appear in the response to searches in search engines like Google, as either a “sponsored” link appearing at the start or beside search engine results or as part of the “organic” search results themselves.

In October 2008, the respondent (Real Estate 1) launched a similar business to REA, split between retail and commercial property, at websites based on the domain names realestate1.com.au and realcommercial1.com.au. In other words, Real Estate 1’s domain names differ from those of REA only by the inclusion of a “1” at the end of the subdomain. Real Estate 1 brands its business as follows (with only the first logo, the RealEstate1 logo, being registered):
Throughout the relevant period, Real Estate 1’s logos evolved, and the form of logo about which REA ultimately pressed its complaints were as follows:

![Real Estate 1 logo](image1.png)

![Real Commercial 1 logo](image2.png)

Real Estate 1 also has engaged in search engine marketing since April 2009 and SEO since July 2009. Despite those efforts, Real Estate 1 remains a “relatively insignificant participant in the property portal market”.

REA brought proceedings for trade mark infringement, passing off and misleading and deceptive conduct. As a threshold issue, Justice Bromberg noted that it was not in issue that Real Estate 1 paid for its sponsored links and was the effective author of all content appearing in relation to its websites when presented as part of organic search results. Accordingly, his Honour was satisfied that any relevant representations were made by Real Estate 1 and not, for example, by the operator of the search engine.

REA argued that Real Estate 1’s use of its domain names as hyperlinks or identifiers in search results, and the second pair of logos depicted above, infringed REA’s registered marks. The chief question was whether there was a “real, tangible danger” of confusion occurring.

In this respect, his Honour held that the essential or distinguishing feature of REA’s first mark is the domain name element in its entirety (the “.com.au” component being necessary because “realestate” alone is highly descriptive, in contrast to other cases involving more contrived terms in which common domain name elements tend to be ignored). The RealEstate1 logo consists of a more complex set of elements, with the “1” being highly visible, and did not sufficiently resemble REA’s logo to be deceptively similar. When presented as a term in search results as part of a sponsored hyperlink or to identify the URL of the destination website, however, the “1” was more likely to be overlooked by internet users. Accordingly, Real Estate 1’s use of the realestate1.com.au domain infringed REA’s mark. His Honour noted that, absent a challenge to the registration of REA’s mark, this led to the “troubling” situation whereby REA effectively enjoyed a monopoly over two highly descriptive terms (when used in a combination) that other competitors in the space might legitimately seek to use.

In relation to REA’s second mark, his Honour was more comfortable that Real Estate 1’s use of its commercial property domain name and logo infringed, because the term “realcommercial” is concocted, even if it combines two common words.

REA’s claims in relation to passing off and misleading and conduct were not successful. His Honour accepted that the term “realestate.com.au” had acquired a secondary meaning distinctive of REA’s business despite it being comprised of descriptive elements.

That being the case, however, it meant that small differences in a competitor’s name would be sufficient to avoid misconception by consumers, particularly given that the relevant class in this case were persons with at least a basic knowledge and understanding of computers, the internet and how to use search engines. The evidence showed a number of other real estate portals employing “.com.au” and “realestate” elements, in a context where cues as to the identity of the business were likely to be less pronounced than in the physical world. Consumers could be expected to be more vigilant when searching for a particular business, and more careful when seeking REA’s website in particular. Further, if there was a likelihood of mistakes occurring, it arose not from Real Estate 1’s conduct, but from REA’s adoption of “the most common element of an internet address as a part of its trading name in combination with a descriptive second-level domain”. Ultimately, his Honour was not satisfied on the evidence that a not insubstantial number of ordinary or reasonable persons in the relevant class were, or were likely to have been, misled or deceived.

REA’s corresponding case in respect of realcommercial.com.au was in theory stronger (again because of the concocted nature of the second level domain), but does not appear to have been the subject of detailed evidence and, accordingly, was dismissed.

**Foster’s Australia Limited v Cash’s (Australia) Pty Ltd**

[2013] FCA 527

(29 May 2013)

Patents and designs – applications made in the name of wrong entity within a group – subsequent
assignments – whether original applicant not an entitled person – whether false suggestion or misrepresentation

The applicant (FAL) is a member of the Foster’s group that, from early 2008 to mid-2011, was responsible for the distribution and marketing of wine and beer products. Its parent company during that period was FGL, the company within the group that also dealt with intellectual property management (among other things) – although FAL tended to be the owner of much of the intellectual property in the group associated with its beer business. Personnel within the group, including the group’s in-house intellectual property advisers, generally were employed by another FGL subsidiary called FPPL.

The inventions and designs in suit were developed by a third party, Dot Design, pursuant to a services agreement with FAL. The agreement provided that any relevant intellectual property created by Dot Design would belong to FAL. The application for the innovation patents and designs in suit were made, however, in the name of FGL. This went unnoticed throughout the application phase until 2010 (when Fosters was seeking to demerge its beer and wine businesses), and led to an assignment of the relevant (standard) patent application and design registrations from FGL to FAL on 12 July 2010. The assignment was recorded in the appropriate registers in August 2010. In December 2010, FAL filed applications for four innovation patents (as divisional applications of the original standard application).

On 21 March 2012, Dot Design entered into an assignment deed under which it assigned to FAL any “residual rights” it might have had in relation to the intellectual property the subject of the designs and patent applications in suit, purportedly with effect from the creation of that intellectual property. Soon after, FAL filed infringement proceedings against the respondent (Cash’s).

Cash’s sought to defend the proceedings by seeking (among other things) an order for revocation based on the grounds set out in ss.138(3)(a), (d) or (e) of the Patents Act 1990 (Cth) in respect of FAL’s innovation patents, and in ss.93(3)(b) or (d) of the Designs Act 2003 (Cth) in respect of FAL’s designs. In effect, Cash’s argued that FGL had never been entitled to apply for the relevant registrations (see s.138(3)(a) of the Patents Act and s.93(3)(b) of the Designs Act), and accordingly never had any rights that it could assign to FAL. Further, those companies could have fixed the problem by seeking to have the original applications amended, but did not. Instead, they persisted with their chosen course, and in doing so, made a variety of false suggestions and misrepresentations to the Commissioner (see ss.138(3)(d) and (e) of the Patents Act) and to the Registrar (see s.93(3)(d) of the Designs Act).

FAL argued in response that the Patents Act draws a distinction between eligibility to apply for a patent and eligibility to be granted a patent, such that by the date of grant FAL was entitled to grant. In addition, FAL argued that FGL was an “entitled person” in any event because it controlled FAL’s conduct and could have called for an assignment; alternatively, there should be found an equitable or implied assignment from FAL to FGL. Accordingly, there was no irregularity in the original filing. FAL made similar contentions in respect of the registered designs, and further argued that these were held on constructive trust for FAL by FGL.

Justice Kenny accepted the distinction identified by FAL, and noted that the legislative regime set out in ss.29 and 15 of the Patents Act meant that a person can make a valid application for a patent even though not ultimately eligible for grant. This was a new feature of the Patents Act not found in its predecessor. Her Honour also accepted that the Patents Act contemplates that the benefit of the right to apply for a patent can be assigned. The cases suggested, however, that such an assignment could only be effective if the assignor had some “right to the benefit of the invention”. Her Honour nevertheless was satisfied that FGL had an assignable interest in the applications; any other conclusion would be inconsistent with the regime established under the Patents Act. Further, because FAL was entitled to receive the grant, FAL was entitled to the priority date established by FGL’s initial filing.

Similarly, in relation to the designs her Honour noted that it was open for FGL to name itself as applicant. Her Honour also was attracted to the proposition that FAL had impliedly assigned its rights in the designs (and to obtain registration thereof) to FGL, but accepted that FGL and FAL’s lack of awareness of the mistake in filing militated against a finding of implied assignment. Instead, her Honour accepted that a constructive trust had arisen in the circumstances of the case.

In relation to Cash’s claims as to false suggestion or misrepresentation, her Honour accepted that those
The grounds of revocation do not require any finding of an intention to deceive, nor is it necessary that there be evidence of anyone actually being misled. However, the applicant for revocation still needs to show that the relevant conduct was “a material factor” inducing the grant of the patents, or the registrations of the designs, which Cash’s failed to do. Alternatively, there was no relevant misrepresentation, because what FGL had done was correct at the time.

The matter was determined as a preliminary point, and the main proceedings remain on foot.

**Kismet International Pty Ltd v Guano Fertilizer Sales Pty Ltd**

[2013] FCA 375  
(29 April 2013)

*Passing off and misleading & deceptive conduct – loss and damage – failure to prove any loss of sales – reputational damages*

From about May 1996, the applicant (Kismet) imported guano into Australia from Indonesia, and marketed and sold it as fertiliser by reference to the name “Guano Gold Kwik Start” or “Guano Gold”. In early 2010, the respondent (GFS) started to import effectively equivalent guano, again from Indonesia. Between January 2010 and August 2011, GFS marketed and sold the product by reference to the “Guano Gold” marks in the mistaken belief that they belonged to the Indonesian supplier.

GFS admitted Kismet’s subsequent claims for passing off and misleading and deceptive conduct, and its assertions as to reputation and levels of sales during the relevant period. At issue was the relief to which Kismet was entitled.

Kismet elected to pursue a damages claim for lost sales rather than an account of profits. Justice Murphy held, however, that Kismet failed to adduce evidence that any customer had switched custom to GFS because of GFS’s use of Kismet’s marks, or that Kismet would have likely achieved a relevant sale absent GFS’s use of them. In this regard, his Honour emphasised that although the Court will engage in some degree of speculation in assessing damages for lost sales, it is necessary for an applicant to first show that loss and damage had occurred; demonstrating wrongful conduct is not enough. His Honour also distanced himself from the “six step” test commonly employed in cases where precise quantification of lost sales is difficult. In his Honour’s view, that test is better suited to cases in which the mark was central to the product in question. Here, the competing products were “just guano”. His Honour noted that the test would lead to the same conclusion anyway, especially in light of inconsistencies in Kismet’s evidence as to the calculation of its profit margin.

His Honour was inclined, however, to allow Kismet to recover “modest” reputational damage of $5,000. It was not necessary for Kismet to have called evidence from its customers in that regard, particularly in light of GFS’s admissions as to Kismet’s goodwill and reputation in the marks.

**Ranbaxy Laboratories Limited v AstraZeneca AB**

[2013] FCA 368  
(23 April 2013)

*Patent infringement and validity – relevance of pre-amendment specification and other Patent Office documents to construction of claims – novelty (prior art and common general knowledge) – inventive step (secondary indicators) – manner of new manufacture*

This decision of Middleton J was handed down on 23 April 2013 after a six-week hearing ending on 28 March 2013 and further written submissions after that. The speedy determination of the matter was requested by the parties, in particular Ranbaxy. The decision is very detailed and covers the validity of two patents and the construction of a third patent. Only a selection of the issues dealt with by his Honour are addressed in this note.

Subject to the outcome of the proceeding, the Ranbaxy parties intended to market in Australia a drug in tablet form, the active ingredient of which is the magnesium salt of the (-)-enantiomer of omeprazole (esomeprazole magnesium).

Omeprazole is a useful anti-ulcer agent. Omeprazole itself was the subject of an expired Australian patent and was followed by a series of other patent claiming salts of omeprazole, a process for the preparation of omeprazole and an oral preparation which included omeprazole.

The AstraZeneca parties alleged that Ranbaxy’s drug would infringe three patents. First, a patent which claims an optically pure salt of the (-)-enantiomer of omeprazole, including the magnesium salt (the Purity Patent). Secondly, a patent which claims omeprazole or one of its single enantiomers or an alkaline salt thereof, in a tablet form with defined characteristics (the Multiple Unit Tableted Dosage Form Patent, or MUPS Patent). Thirdly, a patent which claims an oral pharmaceutical dosage form
comprising, amongst other things, a proton pump inhibitor (PPI), including omeprazole or the
(−)-enantiomer of omeprazole (the 774 Patent).

Middleton J found the relevant claims of the Purity Patent and MUPS Patent valid and infringed.
His Honour found that the 774 Patent was not infringed because of a particular view he took as
to construction of claim 1 of the patent. Other
issues raised on the 774 Patent were not determined
given that the parties desired a quick determination
of the proceeding and that was not possible if all
issues raised in relation to the 774 Patent were to be
decided.

As to the Purity Patent, it concerns “novel salts
of the (−)-enantiomer of omeprazole”. While the
specification acknowledges that the separation of
the enantiomers of omeprazole had previously been
described on both an analytical and preparative
scale, it asserted that there was “no example known
in the prior art of any isolated or characterized salt of
optically pure omeprazole, i.e. single enantiomers of
omeprazole, neither of any isolated or characterized
salt of any optically pure omeprazole analogue”. The
claimed method for preparing these claimed salts
was not in issue in the proceeding.

Ranbaxy admitted infringement of various claims
of the Purity Patent, subject to its allegation that
those claims were invalid.

The key Purity Patent construction issue was the
meaning of the expression “optically pure salt
of [−)-omeprazole]” in claim 1. AstraZeneca
contended that “optically pure” means greater than
or equal to 98% enantiomeric excess (e.e.). That
is to say, to be considered to be “optically pure”,
the preparations must contain at least 99% of the
salt of the (−)-enantiomer of omeprazole, with no
more than 1% of the (+)-enantiomer. In contrast,
Ranbaxy contended that “optically pure” has its
“ordinary meaning” – namely, it means greater than
or equal to 90% e.e. (with the consequence that a
salt of the (−)-enantiomer of omeprazole containing
5% of the (+) enantiomer would be “optically pure”
for the purpose of this patent).

His Honour preferred AstraZeneca’s approach,
using a passage in the specification as an internal
dictionary and the examples which were said to
illustrate the invention. His Honour observed that:

….. even if a conventional meaning of “optically
pure” exists (which the evidence suggests there
does not, or at least, did not at 28 May 1993),
the context of the Purity Patent shows that

any such standard or conventional meaning
was not adopted by the drafters of that patent,
and therefore cannot be determinative of the
construction of that term in context.

This narrower construction of “optically pure”
led in part to the demise of Ranbaxy’s attack on
novelty.

In construing the Purity Patent, Ranbaxy also
sought to tender documents relating to the
prosecution histories of the Purity Patent. His
Honour observed that, while s.116 of the Patents
Act 1990 (Cth) permits the Court, in construing
an amended patent, to refer to the specification
without amendment, the section does not permit
 recourse to other documents on the Patent Office
file – the documents were held to be irrelevant to
the construction of the Purity Patent.

As to novelty, Middleton J observed that:

….. it is not sufficient for a prior publication
to merely “include” or “encompass” the claimed
invention – a broad disclosure will not necessarily
anticipate a later, more specific claim.

In relation to the Purity Patent, the prior art
described as “DE 455” claimed a broad group of
compounds which his Honour accepted included
(−)-omeprazole and its “salts with bases”. His
Honour observed that DE 455 does not identify
any particular salts or specify that a salt form is
preferred over the non-salt form. However, the
broad group of compounds were identified as
having the property of “inhibiting the secretion
of gastric juices” and DE 455 gave “sodium,
potassium, calcium, aluminium, magnesium,
titanium, ammonium or guadinium salts” as
examples of “basic salts” to be used in the method
of preparing a diastereomeric intermediate.

Ultimately, his Honour distinguished DE 455
because, not only does the use of “optically pure”
in DE 455 not convey ≥ 98% e.e., it conveyed
no “level of optical purity at all”. His Honour
found that, absent any disclosure of a method of
measurement of optical purity in DE 455, the
expression “optically pure” does not indicate to the
skilled addressee any level of optical purity and that
conclusion was bolstered because DE 455 did not
disclose any separated enantiomer of omeprazole
of any level of optical purity, and any disclosure of a
workable separation method for the enantiomers.

Turning then to inventive step, validity of each of
the patents was to be determined by reference to
s.7 of the Patents Act prior to amendment of that
section on 1 April 2002. As it stood prior to 1 April 2002, s.7(3) did not permit the skilled team to "combine" unrelated documents, even if those documents otherwise satisfied the requirements of the provision and it would have been obvious to the skilled team to combine them. Multiple documents could only be relied upon if the relationship between them was "such that the person skilled in the relevant art would treat them as a single source of that information".

In considering the common general knowledge of the skilled addressee, his Honour reiterated that information does not constitute common general knowledge merely because it might be found, for example, in a journal, even if widely read by persons in the art. His Honour accepted the question was whether the information is "generally accepted without question" or "generally regarded as a good basis for further action" by the bulk of those in the art.

Ranbaxy's particulars of invalidity stated that their case on inventive step was: (a) based on information contained in a number of publications, which information formed part of the common general knowledge in Australia at the priority date of the Purity Patent alone; or (b) based on the common general knowledge considered together with the information made publicly available in the whole of any one or more of a number of s.7(3) publications. It was asserted that the information contained in each of those publications is information which forms part of the common general knowledge in Australia at or before the Purity Priority Date. His Honour observed that none of the pleading, submissions or evidence of Ranbaxy clearly explained how any of the s.7(3) publications identified could be treated as a single source of relevant information, or how they could be relied upon in combination. Nevertheless, his Honour found that, even with such a combination of information, Ranbaxy's case on obviousness failed.

His Honour identified the inventive step question for the Purity Patent as whether the skilled team had a reasonable expectation of successfully producing a compound with superior qualities to omeprazole in attempting to produce the claimed optically pure salts of (-)-omeprazole (a modification of the "Cripps Question").

As to the relatively hot topic of determining the "starting point" for assessing inventive step, Middleton J held that:

…the cases show that there is no general principle to be applied in determining the starting point for the assessment of inventive step. Further, while the "starting point" may include information that was not within the common general knowledge, this will only be for the purpose of defining the "problem" for the skilled addressee – it must not assist with the solution. … Further, if the problem is faced by the patentee internally but is not appreciated by the ordinary skilled addressee, that is not a problem relevant to determining the inventive step involved in the invention. That is because the statute requires a comparison between the invention as claimed and the relevant prior art base. I noted in Eli Lilly [2013] FCA 214 at [478] that references in the authorities to the "starting point" and the "problem addressed in" a patent effectively relate to the same concept.

Middleton J here referred to the majority decision of the Full Court in Apotex Pty Ltd v Sanofi-Aventis [2009] FCAFC 134 (of which he was a member), where the majority held that, notwithstanding that the claimed product was an enantiomer of the racemate PCR 4099 and that the racemate was not common general knowledge, the "specification of the Patent makes it clear that the selection of PCR 4099 as the racemate to be resolved formed no part of this invention as described and claimed" and so the starting point included a matter which was not common general knowledge – the existence of PCR 4099.

His Honour then went on to determine that:

… the attempts to improve on the art were directed by AstraZeneca internally to the development of analogues of omeprazole. The idea of pursuing the resolution of the enantiomers of omeprazole was one of the aspects of the invention.

It is not entirely clear why the same could not have been said of PCR 4099 in the Apotex v Sanofi-Aventis case or vice versa. This topic of "starting point" is presently the subject of a Full Court appeal, the result of which will no doubt be illuminating.

Middleton J concluded, on the issue of "starting point" for the Purity Patent that the patent went no further than presupposing that the hypothetical worker was in possession of omeprazole in racemic form and the knowledge that it had acid-suppressing activity. As such, it does not presuppose any desire to improve omeprazole's
pharmacokinetic or metabolic properties. His Honour considered that such a desire is properly regarded as part of the invention and, if a starting point is appropriate, it is simply the general desire to improve upon known antisecretory drugs, the most successful of which was omeprazole.

The primary basis for his Honour concluding there was an inventive step in the claims of the Purity Patent was because of the perceived obstacles in the way of actually achieving the high purity of the compound required on his Honour's construction of the Purity Patent. As such, even if motivation existed to go down the path contended for by Ranbaxy, the path would not have been taken by the notional skilled addressee. His Honour found that the common general knowledge did not include any method for the successful resolution of the enantiomers of omeprazole in quantities or at the level of optical purity required to identify differences in the metabolic properties of the enantiomers as compared with each other and the racemate. This conclusion was sufficient to dispose of much of Ranbaxy's inventive step case.

In further support of their case on lack of obviousness of the Purity Patent, AstraZeneca asserted that other pharmaceutical companies at the priority date were not seeking to resolve the enantiomers of omeprazole or its analogues. His Honour accepted that there was a body of evidence to suggest that others failed to arrive at the invention even though they were working to find improvements on omeprazole. Ranbaxy contended that it is not surprising that no one sought to exploit the enantiomers of omeprazole, as AstraZeneca had the benefit of patent monopolies over what it contended were possible claims to the enantiomers of omeprazole. His Honour did not accept Ranbaxy's contentions, and repeated what he had said in an earlier case:

*I take the view that if there is a potential drug within a genus that is possibly valuable, then there is an incentive to seek to develop it. Opportunities may arise upon its development at the end of the already existing patents.*

His Honour here appears to apply a presumption in favour of the patentee which must be displaced by the revoker that, notwithstanding a monopoly over a genus, other companies would be willing to engage in research in the area.

As to commercial success, Middleton J accepted that the success of AstraZeneca's drug the subject of the claims of the Purity Patent was primarily due to the claimed therapeutic advantages of the drug, and not just by the advertisements it used to communicate that message to prescribers or by any other reason.

Turning then to the MUPS Patent, claim 1 claimed:

*An oral pharmaceutical multiple unit tableted dosage form suitable for use in therapy, in particular for the treatment and prevention of gastric acid related diseases in mammals (including man), comprising pharmacologically acceptable tablet excipients and individually enteric coating layered units of a core material containing active substance in the form of omeprazole or one of its single enantiomers or an alkaline salt of omeprazole or one of its single enantiomers, the core material being covered with one or more enteric coating layers and optionally comprising alkaline compounds and optionally covered with a separating layer situated between the core material and the enteric coating layer(s), characterised in that at least one of said enteric coating layers is a polymeric enteric coating layer comprising an effective amount of a plasticising compound, and that the enteric coating layer(s) has mechanical properties which preclude significantly adverse effect essentially on the gastric acid resistance of the individually enteric coating layered units upon the compression of those individual units mixed with said tablet excipients, into the multiple unit tableted dosage form.*

Middleton J held that the MUPS Patent achieves its objects by a particular combination of integers, which characteristically include at least one enteric coating layer having an effective amount of a plasticising compound, and mechanical properties that mean the units can be compressed into a tablet without compromising their gastric acid resistance. The MUPS Patent teaches that the compressibility of the pellets arises from the use of an effective amount of a plasticising compound and the enteric coating layer(s) with specific mechanical properties, rather than any excipients external to the pellets (including microcrystalline cellulose).

Ranbaxy asserted that an earlier AstraZeneca patent (US 505) anticipated various claims of the MUPS Patent. The primary question was whether US 505 disclosed, as Ranbaxy contended, an oral pharmaceutical multiunit tableted dosage form. While US 505 did not provide an example as to how to manufacture pellets, Ranbaxy contended that did not matter because the disclosure of
pellets in tablets in US 505 is clear, and there is no ambiguity in the words used in that patent. His Honour concluded, however, that US 505 exemplifies single-unit tablets, multiunit capsules and multiunit oral sachets, but not multiunit tablets – it contains no examples of, no claims to, and no description of methods for compressing enteric coated pellets into tablets. His Honour did not accept that a brief reference to “pellets formulated into tablets” amounted to “clear and unmistakeable directions” so as to anticipate the multiunit tableted dosage form that is the subject of the MUPS Patent claims since, when considered as a whole, the US 505 was not at all directed to multiunit tablets.

Next his Honour considered a “whole of contents” allegation of anticipation of the MUPS Patent. This involved Ranbaxy proposing a notional claim of a patent that was filed but not published before the priority date of the MUPS Patent. Ranbaxy contended that, by adding “a bit of practical common general knowledge” to a particular statement in the alleged anticipatory document, the invention claimed in the MUPS Patent was disclosed. His Honour observed, however, that common general knowledge cannot be added to the prior art disclosure in order to establish that all the essential integers of the claim are disclosed. His Honour concluded that the novelty attacks on the MUPS Patent failed.

As to inventive step for the MUPS Patent, his Honour held that such an attack failed because of the degree of difficulty involved and the problems confronting the skilled addressee in attempting to design a multiunit tablet containing coated pellets of omeprazole. His Honour stated that:

> even if there was some motivation to try, there were known difficulties which would dull the enthusiasm of the skilled addressee to proceed to such an extent that I consider that they would not proceed with any reasonable prospect of success.

On the 774 Patent, there were two principal questions of construction which were determinative of the question of infringement in favour of Ranbaxy. Claim 1 was paraphrased by his Honour as: (a) an oral pharmaceutical dosage form: (i) comprising a core material that contains ... (A) a PPI; (B) one or more alkaline reacting compound(s); and (C) optionally pharmaceutically acceptable excipients; (ii) said core material having a water soluble separating layer thereon; (iii) with an enteric coating layer thereupon; (b) characterised in that: (i) the core material is alkaline reacting; and (ii) that the separating layer: (A) comprises a water soluble salt of the enteric coating polymer(s); and (B) is formed in situ during the enteric coating.

The principle question of construction was whether the term “core material” includes or could include a coating layer. His Honour held that the “core material” means the material in the centre of the dosage form (containing the API, alkaline reacting compound and any pharmaceutically acceptable excipients), on which the functioning layers may be subsequently formed. As such, “core material” necessarily excludes any layers applied to the core material as defined, including coating layers that do not contain API. This was Ranbaxy’s preferred construction and therefore it succeeded on the 774 Patent.

1 Where either correspondent was involved in a case reported below, and the matter is still running, or potentially so, the other correspondent has taken the role of reporting that case.

NEW SOUTH WALES

Simon Reynolds
Davies Collison Cave
Correspondent for New South Wales

Delnorth Pty Ltd v Commissioner of Patents
[2013] FCA 165

Patents – revocation, re-examination, lack of inventive step, ascertained, regarded as relevant

Background

Delnorth Pty Ltd (Delnorth) is the patentee of Australian Patent No. 2004249786 (the Patent) entitled “Roadside post”. The invention described in the Patent broadly related to a self-righting roadside post. The standard patent application which led to the grant of the Patent was opposed by Dura-Post (Australia) Pty Ltd (Dura-Post). Following a hearing of the opposition, the delegate of the Commissioner of Patents determined that claims 1-32 of the application lacked inventive step. Delnorth appealed the delegate’s decision.

During the appeal, Foster J was advised that an administrator had been appointed to Dura-Post. Delnorth applied for orders allowing the appeal and directing that the patent application proceed to grant. The administrator withdrew Dura-Post’s objection to the Patent. Foster J was also informed that the Commissioner did not wish to be heard.
in relation to the appeal. Subsequently, Foster J made orders setting aside the delegate’s decision and directed the patent application to proceed to grant.

Following the grant of the Patent, the Commissioner informed Delnorth that the Patent was to be re-examined in light of prior art raised in the opposition proceeding. At the conclusion of the re-examination, the delegate decided to revoke claims 1-10, 13-21, 24-28, 32 and 36 (the relevant claims) of the Patent. The decision by the delegate to revoke these claims of the Patent was the subject of the current appeal, which was heard by Nicholas J.

**Patent Family and History**

The Patent is part of a patent family including three innovation patents which were divisional applications from the same PCT application which the Patent is based. The three innovation patents were previously subject of a revocation proceeding: *Delnorth Pty Ltd v Dura-Post (Aust) Pty Ltd (2008)* FCA 1225 (13 August 2008). In particular, Gyles J found that two of the innovation patents were invalid for lacking any innovative step, including claims 1 and 2 of Australian Innovation Patent No. 2006100297 (the Innovation Patent).

In the current appeal, Nicholas J observed that claim 1 of the Patent was in substance the same as claim 1 of the Innovation Patent which was found to lack any innovative step. Additionally, the language of claim 2 of the Patent was identical to the language of claim 2 of the Innovation Patent which was also found to lack any innovative step.

In light of the patent family of the Patent, the current appeal considered whether a claim, which was found to lack any innovative step, could nevertheless be found to possess an inventive step.

**The Delegate’s Decision**

The Delegate determined at the conclusion of the re-examination of the Patent that the relevant claims including claims 1 and 2 should be revoked on the ground that they lack any inventive step in light of two US Patents, US 3,312,156 and US 3,362,305 (the Pellowski patents).

Notably, claims 1 and 2 of the Innovation Patent were found to lack any innovative step in light of the Pellowski patents in the revocation proceeding. Whilst any information which is part of the prior art base can be considered for the purposes of assessing the inventive step of a claim of an innovation patent, information for assessing inventive step of a claim of a standard patent must meet an additional criteria required under s.7(3) of the *Patents Act 1990* (Cth) (the Act). In particular, only information that a person skilled in the art could have been reasonably expected to have ascertained, understood and regarded as relevant can be considered for assessing the inventive step of a claim. The Delegate concluded that the Pellowski patents were prior art information under s.7(3) of the Act.

In coming to this conclusion that the Pellowski patents were prior art information for consideration under s.7(3), the delegate considered evidence comprising of affidavits and transcripts of oral evidence made by various witnesses in the revocation proceeding in relation to the Innovation Patent and in the opposition proceeding.

The evidence was provided by four witnesses, Mr Willbery, Mr Rootes, Mr Robinson and Mr Turner. Mr Willbery and Mr Rootes did not review the patent literature. Although Mr Robinson was aware of the patent literature, he was not aware that it was a relevant source of information for developing roadside posts. Mr Turner noted that viewing patent literature was a routine process for his company when developing new products.

Based on the evidence provided by Mr Turner and Mr Robinson, the Delegate observed that roadside posts have a reasonable level of patenting activity and thus should provide a useful source of information. The Delegate concluded that on balance a person skilled in the art could have been reasonably expected to review patent literature at the priority date of the invention, and thus any patent relating to self-righting roadside posts could be reasonably expected to have been ascertained by a person skilled in the art.

The Delegate additionally concluded that the Pellowski patents were written in plain English and could be understood by the person skilled in the art. Furthermore, the delegate concluded that due to the Pellowski patents referring to durability as one of the advantages of the disclosed roadside posts, the Pellowski patents would clearly be regarded as relevant by a person skilled in the art.

Based on these reasons, the delegate concluded that the Pellowski patents were part of the prior art information for inventive step considerations and that the relevant claims did not include any inventive step over this prior art information.
Decision

Nicholas J was quite critical of the evidence provided by Mr Turner, which the Delegate relied upon in revoking the relevant claims of the Patent.

In particular, his Honour observed that the Mr Turner’s evidence was in relation to four other prior art documents that were not relied by the Commissioner to revoke claim 1 of the Patent. In fact, Mr Turner’s evidence did not refer to the Pellowski patents due to these documents being raised extremely late during the revocation proceedings. His Honour also noted that the details provided in relation to the searches undertaken by Mr Turner’s company were very vague.

His Honour also observed the age of the Pellowski patents that were published in 1967 and 1968. The other patents discussed in Mr Turner’s evidence were granted much later. As such, there was no evidence to suggest that a person skilled in the art would have undertaken searches of patent specifications published in the 1960s for the purpose of solving the problem being addressed by the Patent.

His Honour concluded that Mr Turner’s evidence did not show that the Pellowski patents were patent specifications which the person skilled in the art might be reasonably be expected to have ascertained, understood and regarded as relevant to the problem addressed by the patentee as required by s.7(3) of the Act.

The Patentee submitted that in the context of a re-examination of a patent, the Commissioner and the Court must be “practically certain” that such claims are invalid. The Commissioner submitted that such a standard of proof should not apply for the purposes of re-examination. His Honour concluded that it was not necessary to decide which standard of proof should apply when considering whether to revoke claims of a patent following re-examination but noted that nothing which had been presented by the Commissioner was considered persuasive to conclude that a standard of proof less favourable to the patentee should apply in such circumstances.

In view of the evidence failing to justify that the relevant claims should be revoked, his Honour set aside the order made by the Delegate. Costs were awarded against the Commissioner.

Thus, this decision has led to the unusual situation where particular subject matter of claims of a Standard Patent were found to possess an inventive step, yet the same subject matter of claims of an Innovation Patent were found to lack an innovative step.
Case Law Developments

Oraka Technologies Limited & Ors v Geostel Vision Limited & Ors

Court of Appeal of New Zealand
Glazebrook, Randerson and Stevens JJ.
11-12 July 2012 and 18 April 2013

Copyright – ownership – infringement – flagrancy – ss.2, 29, 121(2) Copyright Act 1994 (Cth)

Facts

This was the second appeal from a substantive decision in a long-running dispute concerning copyright in asparagus grading machinery.

The third appellant (Schwarz) had developed a grader for automatically sorting asparagus spears and in 1993 commissioned the third respondent (Napier Tool) to manufacture a cup assembly (the Schwarz cup assembly) for the grader (the Oraka Grader). The relevant copyright works for the purposes of the appeal were certain preliminary drawings produced (under commission) by Napier Tool (the 1993 drawings).

The first respondent (Oraka Technologies) was the first Schwarz-related company to exploit the Oraka Grader. When it ran into difficulties in 1996, a new company (Oraka Holdings) was used as a vehicle for commercial activity associated with the Oraka Grader. Oraka Holdings was eventually wound up, and the dies for the Oraka Grader were assigned to a third party.

The Schwarz cup assembly was subject to wear and required replacement over time, so there was an ongoing market for the provision of replacement cup assemblies. In 2001, the first respondent (Geostel) developed, with the involvement of Napier Tool, a replacement cup assembly for the Oraka Grader to compete with the Schwarz cup assembly. Evidence showed that reference was made to the Schwarz cup assembly at a meeting between Geostel and Napier Tool, and that drawings made at the meeting replicated aspects of the Schwarz cup assembly. Twelve days after that meeting Geostel had completed computer models of the Geostel cup assembly. There was no evidence that Napier Tool referred to the Schwarz computer models it held during the Geostel cup assembly design process.

Before proceeding with manufacture of the Geostel cup assembly, Napier Tool obtained written advice from a patent attorney that there was no copyright breach as the two cup assemblies explained the same concept in a different manner.

The performance of the Geostel cup assembly was initially unsatisfactory. Modifications were made to correct this which the appellants claimed drew on the Schwarz cup assembly. Evidence showed that Geostel's personnel made numerous suggestions to Napier Tool that it look to the Schwarz cup assembly for solutions. The respondents contended that they set out to solve the practical problems in their own way, albeit by reference at time to what the appellants were doing, to avoid or solve similar problems.

The appellants' principal allegation was that Geostel and Napier Tool infringed copyright in the 1993 drawings by manufacturing and selling copies of the appellants' copyright works.

Napier Tool also argued that the appellants lacked standing. It argued that business efficacy required that a term be implied by operation of law that copyright in the 1993 drawings was transferred to Oraka Holdings in 1996 along with the commercial activity associated with the Oraka Grader, and that such copyright was later transferred to the third party and therefore out of the appellants' hands.

Allan J in the High Court held that Oraka Technologies was the owner in the copyright works, but that there had been no copyright infringement, because sufficient objective similarity between the 1993 drawings and the Geostel cup assembly was not made out (despite finding substantiality and a causal link).

Allan J noted that this was "one of those rare cases" where, notwithstanding clear evidence of the use of the appellants’ work as a starting point, the appellants’ claim nevertheless failed for lack of objective similarity. In particular:

(a) "The dimensions and parameters of asparagus grading machines in general were functional constraints imposed by third party technology, which imposed the same restraints on both parties. [63]."

(b) "The similarities between the cup assemblies were therefore no greater than might be expected if completely independently designed. [61]."

(c) "Certain aspects of the cup assemblies were likely constrained by the function of grading"
asparagus generally in standard industry practice. [61.]

(d) Certain dimensional similarities were not sufficient alone to establish objective similarity. [62].

(e) In respect of a number of features in the two cup assemblies, common principles were expressed quite differently. [62].

In the related costs judgment (also appealed), Allan J awarded additional costs against the appellants for pursuing flagrancy claims against the respondents that in his view should not have been made.

The issues on appeal were:

(a) Did the first appellant (Oraka Technologies) own the copyright works?
(b) If Oraka Technologies owned the copyright works, was copyright infringed?
(c) Should there have been a finding of flagrancy?
(d) What was the appropriate remedy?

Held, allowing the appeal in part, finding that the respondents had infringed copyright, but that there was no flagrancy.

Ownership of Copyright

(1) The High Court was correct to conclude that Oraka Technologies owned copyright in the Schwarz cup assembly, and that it had not been assigned to Oraka Holdings by operation of law, and had not been further assigned to the third party, as contended by Napier Tool.

(2) Assignment by operation of law occurs when, without any voluntary act on the part of the owner, ownership passes such as might arise upon intestacy or bankruptcy or by an order of the Court. “Operation of law” does not apply to the implication of a term in a contract voluntarily entered into. [76].

(3) There was no necessity for an implied term that copyright in the Oraka componentry passed to Oraka Holdings when it took over the Oraka Grader business in 1996, since a licence would suffice. [77].

(4) There was no evidence of an assignment of goodwill from Oraka Technologies to Oraka Holdings in writing (as required by the Copyright Act) nor of the sale and purchase of assets by Oraka Holdings. Oraka Technologies simply ceased to trade in asparagus graders and Oraka Holdings took over the business formerly conducted by it. [78]. Further, the assignment to the third party was of the dies (not copyright) and was by way of security only.

(5) Copyright had therefore not been transferred to Oraka Holdings and Oraka Holdings could not have transferred it to the third party. [79].

Infringement by Copying

(6) The leading test for infringement by copying was established in Wham-O Mfg Co v Lincoln Industries Limited. The three main elements are substantive, objective similarity and causal connection. [85]. Wham-O Mfg Co v Lincoln Industries Limited [1984] 1 NZLR 641 (CA) applied.

(7) The Court in Wham-O did not mandate the Order in which the factors were to be considered. The most logical ordering will usually be first to examine whether there is objective similarity before turning to the question of causation and finally substantiality. [86].

(8) The “substantiality” test can be regarded in part as a practical threshold designed to limit claims of infringement to those that are real and substantial. The appropriate place to apply such a practical test is at the end once copying is established. It also means the issue of substantiality is decided on the basis of what is actually found to have been copied rather than on wider allegations. The High Court erred in applying the substantiality test to the appellants’ allegations rather than to what was actually copied. [87].

(9) Evidence that there are functional constraints on a design can be evidence supporting an inference of an independent design path (and therefore no causation). It can also be important in assessing whether a substantial part has been copied. [88].

Causal Connection

(10) Where a claimant’s and a defendant’s works are objectively similar, there are four possible explanations: the defendant copied the claimant’s work; the claimant copied the defendant’s work; both arose from a common source; or the similarities occurred through chance or coincidence. It is only in the first case (i.e. where the
defendant copied the claimant’s work) that infringement occurs. No infringement occurs by an act of independent creation. [113].

(11) In most cases copyright can only be deduced by inference from all the surrounding circumstances. It is unusual for there to be evidence of actual copying. [114].

(12) Causality is the “ultimate issue” in a copyright case. The degree of similarity between two works has evidentiary significance and is of assistance in satisfying causality. If an alleged infringer has access to, and therefore an opportunity to copy, and the similarity between the works supports an inference of copying, it may well be appropriate for the Court to conclude that there was copying. This is subject always to the evaluation of any evidence that no copying actually took place. [114]. *Henkel KGaA v Holdfast New Zealand Limited* [2007] 1 NZLR 577 at [43] reffered to.

(13) Evidence of independent design will assist in rebutting any inference of copying. The fact that a defendant fails to give evidence to indicate how the alleged infringing work was produced can be taken into account. *UPL Group Limited v Dux Engineers Limited* [1989] 3 NZLR 135 (CA) referred to.

(14) It was absolutely clear from the evidence that there was not an independent design path for the Geostel cup assembly. An independent design path would have started with the Oraka Grader or with general functional constraints of the product. Instead the design path undertaken by Napier Tool took as a starting point the Schwarz cup assembly. [119] This was clear in part because of the numerous suggestions to Napier Tool that specific issues with the Geostel cup assembly be resolved by reference to solutions found in the Schwarz cup assembly. [125].

(15) The Judge ought to have drawn a negative inference from the respondents’ failure to call as a witness the only person who knew whether the Schwarz material, held by Napier Tool, was referred to in the design process. In this regard, the speed with which the Geostel design was produced (i.e. 12 days) was also relevant. [124]. *Thornton Hall Manufacturing Limited v Shanton Apparel Limited* [1989] 3 NZLR 304 (CA) reffered to.

(16) Since there was direct evidence of copying, Allan J. did not misstate the law by concluding that, if the appellants established objective similarity, that would have been the result of the defendants’ copying. [126] and [127].

**Substantial Part**

(17) The essential test is whether a claimant can show substantial use by the defendant of those features of the claimant’s work that, by reason of the knowledge, skill and labour employed in the production, constituted it as an original copyright work. It is wrong to jump to the conclusion that a substantial part was taken simply on the basis that copying occurred. What constitutes a “substantial part” is necessarily a question of fact and degree. The quality or importance of what has been taken is much more significant than the quantity. [129]. *Bonz Group (Pty) Limited v Cooke* [1994] 3 NZLR 216 and *Henkel KGaA v Holdfast New Zealand Limited*, supra at [44] reffered to.

(18) If similarities between two works are dictated by the function of the item, then the similarities are an inevitable consequence of the object and its function rather than the labour and skill of the claimant, against whose misappropriation the law of copyright seeks to protect. [137].

(19) If the claimant’s design is very ordinary (common place) given the constraints imposed by the function of the object and there is nothing new added, then the originality of the claimant’s work might be non-existent or so low that the defendant can easily avoid breach by adding something of his or her own design. [132]. *Farmers Build Limited (In Liquy) v Carrier Bush Materials Handling* [1999] RPC 461 (CA) reffered to.

(20) The constraints imposed by the need for the cup assembly to be compatible with the Oraka Grader and the third-party technology included in that grader were specific to the Oraka Grader.

(21) There is no spare parts exception in New Zealand, and it was not submitted that the way in which the Oraka Grader was built was the only way that an asparagus grading machine could be built. [139]. *Mono Pumps (New Zealand) Limited v Karinga Industries Limited* (1986) 7 IPR 25 (HC) and *Husqvarna Forests & Garden Limited v Bridon New Zealand Limited* [1997] 3 NZLR 215 referred to.

(22) The issue was whether, discarding certain similarities that were due to true functional constraints, the Geostel cup was a copy of a substantial part of the Schwarz cup assembly. It was. The respondents copied a number of elements that, while not functional in the true sense, nevertheless possessed a low level of originality. These elements were still protected, although this protection was not great. It was significant that both experts agreed that the Geostel cup appeared to be a second generation of the Schwarz cup. The respondents had infringed copyright. [145] to [146].

**Flagrancy**

(23) The appellants’ plea for an order that the respondents deliberately and flagrantly reproduced the work failed including in circumstances where Napier Tool had obtained legal advice confirming that they were not infringing the appellants’ copyright. [151].

**Remedy**

(24) It was appropriate for the matter to be remitted to the High Court for an inquiry into damages. [156].


HONG KONG AND CHINA

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Hong Kong Gets Serious About Parody

Parody may be exempted from liability for copyright infringement under proposals put forward by the Hong Kong Government as part of a public consultation on the issue.

This consultation arose out of the Government’s introduction of the Copyright (Amendment) Bill (the Bill) into the Legislative Council in 2011. To keep pace with the rapid change of technology, the Bill provided for a technology-neutral exclusive right for copyright owners to communicate their works through any mode of electronic transmission, with criminal sanctions against those who make an unauthorised communication of copyright works to the public. “Netizens” (avid users of the internet and its online communities) and others viewed this “communication offence” as an attempt by the Government to criminalise parody, thereby restricting creativity and freedom of speech.

While there is no uniform definition of parody (terms such as satire, caricature and pastiche are often used interchangeably), it is generally considered to be an imitation of the style of a particular writer, artist or genre with the use of deliberate exaggeration for comic effect. The existing Copyright Ordinance does not contain any provisions targeting parody but, equally, it does not have an explicit parody defence either. Whether a work is a parody or not has no direct bearing on whether there is a copyright infringement.

Where a person distributes an infringing copy of a work (be it a parody or not) to the public in the course of trade or business which consists of dealing in infringing copies of copyright works or to such an extent as to affect “prejudicially” the copyright owner, that person may be subject to criminal liability. Parodies commonly disseminated on the internet nearly always fall outside the criminal net as they do not displace the market of the copyright work. This is reflected by the fact that there are no recorded cases of criminal prosecution of a parody in Hong Kong or in any of the other major common law jurisdictions.

As objection to the changes put forward by the Bill intensified last year, the Government tried to make it clear that the Bill was only intended to target parodies. This failed to convince many objectors as the proposed wording in the Bill made no such distinction. Creators of derivative works complained that they faced an uncertain legal position. The Government then pledged to conduct a public consultation on parody after the passage of the Bill was completed, however the objections continued and the Bill lapsed upon expiry of the previous term of the Legislative Council in 2012.

Now, in an attempt to reintroduce the Bill, a public consultation on the treatment of parody has been issued to try to map out a way forward for the Bill, which has already been scrutinised and supported by the Bills Committee and many other stakeholders. The consultation paper considers how parody is currently dealt with in the US, UK, Australia, Canada and New Zealand before putting forward three options for public discussion in Hong Kong:

Option 1: Clarifying the existing provisions for criminal sanctions.

Option 2: Introducing a criminal exemption for parody.

Option 3: Introducing a fair dealing exception for parody.

Option 1

This option seeks to clarify the relevant criminal sanctions to reflect the policy intent of combating copyright infringement activities on a commercial scale. Under this option, the legislation would require that infringing acts must have caused “more than trivial economic prejudice” to the copyright owner and introduce factors for the court to consider in reaching this conclusion.

Option 2

Under this option, the legislation would specify that any distribution or communication of a parody would not attract criminal liability under the existing “prejudicial distribution” or the proposed “communication offence” as long as the qualifying condition – that the distribution/communication does not cause “more than trivial economic prejudice” to the copyright owner – has been met. Creating a specific criminal exemption for parodies raises the question as to whether “parody” should be defined and if so, how. The Government has emphasised that any proposed exemption must be subject to Hong Kong’s compliance with its international obligations under the TRIPs Agreement.
Option 3

Here, the creation, distribution or communication of a parody would not attract any civil or criminal liability provided that one of the fair dealing exceptions (yet to be decided) is met. It is anticipated that, as part of this option, a non-exhaustive list of factors would need to be stipulated to guide the court’s determination of whether the dealing of a particular work is fair. Parody was not a subject that the Bill specifically sought to address, yet ironically, whether the Bill will now progress at all may depend on how that subject is dealt with. The Government has not expressed a preference for any of the three options but plans to engage with the public through various forums to explain the options and to collect views. The consultation will end on 15 October 2013. The Government is silent as to when the Bill might be re-introduced into the Legislative Council following the closing of this consultation exercise.

SINGAPORE

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Autozone Automotive Enterprise v Autozone Parts, Inc
[2013] SGIPOS 1

Introduction

This case concerns a revocation action and an invalidation action brought by Autozone Automotive Enterprise (the applicant) against Autozone Parts, Inc (the Registered Proprietor). The Registrar of the Intellectual Property Office of Singapore held in favour of the applicant for the revocation action, but dismissed the applicant's invalidation action. The applicant's revocation action is the focus of this case summary as the Registrar’s decision raises interesting implications on what is considered sufficient “use” of a mark on the internet.

How is this Case Relevant?

This case is particularly relevant for trade mark owners who offer goods/services online. To ensure that a mark registered in Singapore is not susceptible to being revoked by a third party, trade mark owners have to ensure that the goods/services which are offered online are “directly targeted” at consumers in Singapore. In other words, it is not enough to simply place the offer of goods on the internet website and wait for a consumer in Singapore to enquire about these goods – trade mark owners have to “directly offer or advertise” their goods/services to consumers in Singapore.

Background

The applicant is a business registered in Singapore and is in the business of importing, exporting and wholesaling of automotive spare parts for Japanese vehicles.

The Registered Proprietor is a company incorporated in Nevada and is the largest auto parts retailer in the United States of America, with more than 4,800 stores in the USA, Puerto Rico and Mexico.

With effect from 13 February 1999, “AUTOZONE” and “AutoZone” (the Registered Marks) were registered in Singapore in the name of the Registered Proprietor with respect to “retail services, including retail of automotive parts” in class 35.

Although the Registered Proprietor did not have a business presence in Singapore, since 1996, it has operated a website www.autozone.com which offers automotive parts and accessories for sale. The website only accepted online orders for shipments made to addresses within the United States, US Territories and overseas US military addresses. In making orders online, a US ZIP code had to be provided.

On 1 March 2010, the applicant filed their application for revocation of the Registered Marks. In response, the Registered Proprietor submitted evidence that it had shipped mechanic gloves on two separate occasions to a customer based in Singapore. These sales were made in response to an email enquiry initiated by the customer who was interested in purchasing these goods that were displayed on the Registered Proprietor's website. The Registered Proprietor also submitted evidence that 282 unique users in Singapore had clicked on their website over a period of 23 months.

Use of Registered Marks in Actual Sales

The first issue that the Registrar considered was whether the actual sales of shipped mechanic gloves to a customer based in Singapore was sufficient to constitute use in relation to the services for which the Registered Marks were registered. As mentioned above, the Registered Marks were registered with respect to “retail services” and not for “goods”. The
Registrar stated that the actual supply of “goods” from the Registered Proprietor’s website to a Singapore delivery address does not necessarily lead to the conclusion that “retail services” had been provided in Singapore. According to the Registrar, to show that “retail services” had been provided in Singapore, it is insufficient to reason backwards that since “goods” were ordered and delivered to Singapore, “retail services” must have been provided in Singapore.

**Use of Registered Marks on the Internet**

The second issue that the Registrar considered was whether use of the Registered Marks on the Registered Proprietor’s website constituted use in Singapore in respect of the services claimed.

In this regard, the Registrar followed the approach laid out in an earlier Singapore case, *Weir Warman Ltd v Research & Development Pty Ltd* [2007] 2 SLR(R) 1073 (*Weir Warman*), which applied the reasoning in the UK High Court decision of *800-FLOWERS Trade Mark* [2000] F.S.R. 697 (*800-FLOWERS*).

In *800-FLOWERS*, Buxton LJ discussed the offer of goods under a trade mark on an internet website at 220:

> There is something inherently unrealistic in saying that A “uses” his mark in the United Kingdom when all that he does is to place the mark on the internet, from a location outside the United Kingdom, and simply wait in the hope that someone from the United Kingdom will download it and thereby create use on the part of A.

> …[T]he very idea of “use” within a certain area would seem to require some active step in that area on the part of the user that goes beyond providing facilities that enable others to bring the mark into the area. Of course, if persons in the United Kingdom seek the mark on the internet in direct encouragement or advertisement by the owner of the mark, the position may be different; but in such a case the advertisement or encouragement in itself is likely to suffice to establish the necessary use.

[Emphasis added]

Applying the above reasoning in *Weir Warman*, the learned Judge stated that there must be some additional “active step” by the defendant in Singapore that goes beyond simply placing the offer of goods (in this case, “Warman” pumps) on its internet website and waiting in the hope that someone from Singapore will enquire about these goods. In *Weir Warman*, the “active step” was fulfilled based on evidence adduced by the defendant that the defendant had addressed a fax to a Singapore company, offering the sale of various “Warman” pumps. Accordingly, the learned Judge in *Weir Warman* held that this act constituted the requisite “active step” in Singapore, which proceeded beyond the mere placing of the “Warman” mark with respect to pumps on the internet.

In the present case, the Registered Proprietor adduced evidence to show that 282 unique users in Singapore had clicked on their website over a period of 23 months. However, the Registrar stated that the Registered Proprietor’s evidence showed that advertising on their website was targeted at the US market and not at the public in Singapore. As such, even though the Registered Proprietor’s services were available to anyone in the world with internet access through a combination of an online website and email communications, the Registered Proprietor’s services were not “directed” at the consuming public in Singapore through any “active step”.

Accordingly, the Registrar held that the applicant succeeded in its revocation action as the Registered Marks had not been shown, on the balance of probabilities, to be used in Singapore in the five years before the application for revocation was made.

**Conclusion**

This case reinforces the principle laid out in the earlier English and Singapore cases (*800-FLOWERS* and *Weir Warman*) that, in a revocation action, use of a mark on the internet requires some “active step” in the particular jurisdiction. This “active step” would typically come in the form of “direct encouragement or advertisement” by the trade mark owner to target consumers in that particular jurisdiction.
JAPAN

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Misleading Cola Advertising Questioned by Regulator

Japanese consumers are particularly conscious about food. The result is a growing lucrative multi-billion dollar market for health foods in Japan that is being tapped by both local and foreign companies. Japan is a pioneer in regulating health food labelling claims. It is critical that companies’ health food products comply with food labelling and advertising regulations. This comment discusses recent health claim advertising that was considered as misleading by the Japanese regulatory authority.

News Flash or Healthy Food?

According to media reports, the Consumer Affairs Agency of the Government of Japan (CAA) had instructed Coca-Cola (Japan) Co. (CCJ) that the company’s advertising copy for a carbonated drink may have caused misunderstanding among consumers. The advertisement copy in question was:

The advertisement used the words (circled) which means “Tokuhou” as in news flash. The advertisement’s choice of words sounded very similar to which is “Tokuho” which is a popularly used abbreviation of “tokutei hoken-ya shokuhin”, which literally translates as “special healthy food.” “Tokuho” is the generally used term for food and drinks that the Japanese regulatory authority has designated as healthy.

The CAA was established on 1 September 2009 to exercise overall jurisdiction over food labelling, which was formerly under the jurisdiction of the MHLW, as far as regulations for the labelling were concerned. Likewise, with regard to the JAS Law which used to be under the jurisdiction of the Ministry of Agriculture, Forestry and Fisheries, the overall jurisdiction was transferred to the CAA as far as the regulations for the labelling were concerned. The CAA holds overall jurisdiction over food labelling, including measures to be undertaken to ensure compliance with Codex standards.

The CCJ product is Canada Dry Ginger Ale FIBER 8000. Coca-Cola sold it as a limited-time offer for about three weeks from late April 2013. The CAA was reported to have expressed to CCJ its “concerns that consumers may have misunderstood the advertisement”.

The Canada Dry drink is not a registered tokuho product. However, to emphasise the drink’s high fibre content, a fact that can also be claimed by many tokuho drinks, the company used the word tokuhou in TV commercials and other advertisements through voice messages and text. In media reports, the CAA noted that: “If consumers are not careful, they are likely to hear tokuho”.

According to media reports, the CAA instructed CCJ in late April 2013 to improve the commercial, warning that consumers could misinterpret the product as “tokuho” food. A CCJ official noted that the commercial ended as originally planned; but added that: “We would like to faithfully accept the fact that some misunderstood the commercial”.

Food Labelling with Health Claims

In 1991, Japan’s unique health food regulatory regime, FOSHU (Foods for Specified Health Use), was launched by the Ministry of Health, Labor and Welfare, whereby branded products with health functional ingredients are individually approved and authorised to carry various health claims.

In order to successfully secure FOSHU certification, applicants must conduct various rigorous experiments and comprehensive tests on humans to demonstrate the health effects of their products. The relevant data and information to be provided are related to safety, efficacy, processing, formulation, analytical method, and chemical and physical analysis, as well as other specifics. Product samples and proposed labels with proposed claims must also accompany the application with some bridging clinical data from Japan. The CAA will review the results of these tests and issue its judgment accordingly.
There are legal prohibitions of exaggerated and misleading claims (under Japan’s Health Promotion Law), where any claims related to health or function made on functional foods must be relevant and substantiated by scientific evidence. The prohibitions extend to advertisements used in all media, such as print, broadcast and the internet, that promote food sales and convey positive effects on health maintenance and promotion not necessarily having scientific evidence on the claim. Under s.32(2) of the Health Promotion Law, exaggerated and misleading health claims are prohibited. Under the applicable regulations, if the offender does not comply with the direction or recommendation of the enforcement authority, it may be liable to certain penalties, including imprisonment of up to six months or a fine not exceeding one million yen.

Currently, the CAA is responsible for administering and regulating the use of such health food claims. Approved and accepted health food products are authorised to display the CAA’s label (see below) – where the figure symbolises jumping for health.

Approved FOSHU products are sold in supermarkets, convenience stores and to hospital food services. As may be imagined, these “special healthy foods” hold considerable consumer cachet. FOSHU products are among the fastest-growing categories in the food industry, and it was reported in the business media that the 2011 sales of these products reached US$5.61 billion.

Healthy Cola War in Japan

In April 2012, Japan witnessed the launch of its first ever healthy cola – Kirin Mets Cola – which was introduced by beer and beverage giant, Kirin. According to Kirin, it took a cue from a market research finding that males in their 30s and older were becoming increasingly health conscious and hence Kirin developed “a sugar-free cola containing indigestible dextrin that reduces the absorption of fat during meals and that diminishes the increase of neutral fat in the blood after meals”.

Kirin Mets Cola advertising featuring Orlando Bloom

Kirin Mets Cola received the CAA’s health claim seal of approval on the basis that, when the beverage is drank while eating fatty foods, Kirin Mets Cola uses dietary fibre to absorb fat in the bloodstream which “suppresses fat absorption”.

Kirin announced that it topped 50% of its annual sales goal in just two days following the launch. In May 2012, due to an unexpected overwhelming demand from health conscious males, Kirin had to apologise to customers and suppliers for any inconvenience due to shortages as it repeatedly revised its sales target upward and exceeded 100 million total items shipped by late September 2012.

Not to be outdone, on 13 November 2012, Pepsi, in conjunction with its sole distributor Suntory, launched the sales of a special line of cola drinks “Pepsi Special” (see below left) that had the CAA’s health food seal of approval as well. According to Suntory’s media release of the product launch, “Pepsi Special” contains “indigestible dextrin” that helps to reduce the amount of fat absorbed into the body, the beverage suppresses the rise in triglycerides in the blood that normally follows a meal and it “reduces the absorption of fat”.

According to contemporary media reports, these healthy cola beverages have been a market hit to the target audience of 30 to 40 something Japanese males.
In view of the highly competitive nature of the carbonated beverage industry, it was no surprise that Coca Cola introduced its own health-based fibre-infused drink. However, as this comment has highlighted, it is important for companies to ensure that their advertising and promotional material, in addition to food and drink labelling, are compliant with Japan’s food labelling regulatory regime.

Global brands face intense competition especially in advanced economic consumer marketplaces, like Japan. When marketing their products, companies wish to make claims about them and it is crucial to ensure that such advertising does not fall foul of Japan’s consumer and health claims regulations.

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Historic Treaty Adopted, Boosts Access to Books for Visually Impaired Persons Worldwide

Marrakesh/Geneva, 27 June 2013
PR/2013/741

International negotiators meeting under the auspices of the World Intellectual Property Organisation (WIPO) have adopted a landmark new treaty that boosts access to books for the benefit of hundreds of millions of people who are blind, visually impaired and print-disabled.

The treaty, approved after more than a week of intense debate among negotiators gathered in Marrakesh, Morocco, is the culmination of years of work on improving access for the blind, visually impaired, and print disabled to published works in formats such as Braille, large print text and audio books.

WIPO Director-General Francis Gurry said, “This treaty is a victory for the blind, visually impaired and print disabled, but also for the multilateral system. With this treaty, the international community has demonstrated the capacity to tackle specific problems, and to agree a consensus solution. This is a balanced treaty, and represents a very good arbitration of the diverse interests of the various stakeholders.

“It is a historic treaty that will lead to real benefits for the visually impaired,” Dr Gurry said.

Recording legend Stevie Wonder joined negotiators in celebrations on Friday 28 June with a concert at the Palais des Congres in Marrakesh, where the negotiations have been hosted by the Kingdom of Morocco.

“There are no winners and no losers, this is a treaty for everyone,” said Morocco’s Minister of Communications and Government Spokesperson Mustapha Khalfi, who banged the gavel to signify the treaty’s adoption. “Thanks to the blessing that is here in Marrakesh, which we call the city of the Seven Saints, and thanks to you all we were able to achieve what we can call a ‘Miracle in Marrakesh’.

Bringing together more than 600 negotiators from WIPO’s 186 member states, WIPO convened the Diplomatic Conference to Conclude a Treaty to Facilitate Access to Published Works by Visually Impaired Persons and Persons with Print Disabilities on 18 June.

The treaty, called the Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired or Otherwise Print Disabled, addresses the “book famine” by requiring its contracting parties to adopt national law provisions that permit the reproduction, distribution and making available of published works in accessible formats through limitations and exceptions to the rights of copyright rightholders.

It also provides for the exchange of these accessible format works across borders by organisations that serve the people who are blind, visually impaired, and print disabled. It will harmonise limitations and exceptions so that these organisations can operate across borders. This sharing of works in accessible formats should increase the overall number of works available because it will eliminate duplication and increase efficiency. Instead of five countries producing accessible versions of the same work, the five countries will each be able to produce an accessible version of a different work, which can then be shared with each of the other countries.

Currently, it is left to national governments to define what limitations and exceptions are permitted. In practice, limitations and exceptions contained in national laws vary widely. In many countries copying for private use is free, but only a few countries make exceptions for, say, distance learning. Moreover, the exemptions apply only in the country concerned.

The treaty is also designed to provide assurances to authors and publishers that that system will not expose their published works to misuse or distribution to anyone other than the intended beneficiaries. The treaty reiterates the requirement that the cross-border sharing of works created based on limitations and exceptions must be limited to certain special cases which do not conflict with the normal exploitation of the work and do not
unreasonably prejudice the legitimate interests of the rightholder.

The treaty calls for cooperation among its contracting parties in order to foster cross-border exchanges. The parties are committed to increasing the availability of published works as quickly as possible, and this cooperation will be an important step toward achieving that goal.

The treaty will enter into force after it has been ratified by 20 WIPO Members that agree to be bound by its provisions.

**Background**

According to the World Health Organisation, there are more than 314 million blind and visually impaired persons in the world, 90 per cent of whom live in developing countries. A WIPO survey in 2006 found that fewer than 60 countries have limitations and exceptions clauses in their copyright laws that make special provision for visually impaired persons, for example, for Braille, large print or digitised audio versions of copyrighted texts.

Furthermore, because copyright law is "territorial", these exemptions usually do not cover the import or export of works converted into accessible formats, even between countries with similar rules. Organisations in each country must negotiate licences with the rightholders to exchange special formats across borders, or produce their own materials, a costly undertaking that severely limits access by visually impaired persons to printed works of all kinds.

According to the World Blind Union, of the million or so books published each year in the world, less than 5 per cent are made available in formats accessible to visually impaired persons.

**Stevie Wonder Hails Landmark WIPO Treaty Boosting Access to Books for Blind and Visually Impaired Persons**

Marrakesh/Geneva, 28 June 2013

PR/2013/742

On 28 June, recording legend Stevie Wonder congratulated international negotiators who concluded a new treaty easing access to books for the blind, and urged national lawmakers to swiftly ratify the accord and unlock its benefits for hundreds of millions of people around the world who are blind, visually impaired and print-disabled.

According to the World Health Organisation, there are more than 314 million blind and visually impaired persons in the world, 90 per cent of whom live in developing countries. WIPO Director-General Francis Gurry and musician Stevie Wonder Celebrate Historic Marrakesh Treaty (Photo: WIPO/Berrod)

Mr Wonder called on the delegates to return to their capitals and ensure the treaty is ratified.

“While the signing of this treaty is a historic and important step, I am respectfully and urgently asking all governments and states to prioritise ratification of this treaty so that it will become the law of the land in your respective countries and states,” he told the closing ceremony of the WIPO diplomatic conference for visually impaired
The Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired or Otherwise Print Disabled addresses the “book famine” by requiring its contracting parties to adopt national law provisions that permit the reproduction, distribution and making available of published works in accessible formats through limitations and exceptions to the rights of copyright rightholders.

“To the 300 million who are visually disabled, this new treaty is a major step toward access to the basics: such as works in formats such as Braille, large print text and audio books. The thirst and famine for books is coming to an end,” Mr Wonder said.

In his closing speech, WIPO Director-General Francis Gurry said the treaty, while respecting the international architecture of the copyright system, “will have a positive and concrete impact on the problem that brought us all here to Marrakesh”. He said the treaty “provides a framework for addressing that problem which is simple, workable and effective,” and thereby responds to the expectations of the blind and visually impaired.

Dr Gurry praised “the commitment and engagement” of Member States, as well as beneficiaries and the rights holders. He said the treaty is but a first step in the process, which continues with ratification and with the development of practical systems for moving works in accessible formats around the world to needy beneficiaries.

Also speaking at the closing ceremony, Morocco’s Minister of Communications and Government Spokesperson Mustapha Khalfi, who presided over the diplomatic conference, said, “Ten days ago we welcomed you to Marrakesh and began work at this historical diplomatic conference – historic because of its location and because it worked to combine intellectual property and human rights.” Mr Khalfi described the treaty as “very good” and welcomed the extensive participation of over 100 member states and 60 non-government organisations.

World Blind Union (WBU) President Maryanne Diamond said, “You gave us a treaty. Better still you gave us a good treaty – one that will change the lives of millions of people.” She expressed her gratitude to the original proponents of the treaty – Brazil, Paraguay and Ecuador, thanking them for their “support, true determination and partnership.” Ms Diamond said the lives of blind and visually impaired “will only be changed when this treaty is implemented”. She urged governments to ratify the treaty as a matter of priority, concluding, “This is a day that will be recorded in history.”

International Publishers Association (IPA) President Y. S. Chi said the success of the treaty lies in whether member states ratify the treaty and implement it effectively and actively. “It is clear that neither the print disabled community nor publishers believe that this treaty alone will solve the book famine. That issue will be resolved by publishers adopting new technologies and integrating accessibility into their normal production process. In the interim, we are committed to safety nets. This treaty is one of those safety nets.”

On 28 June, 51 member states signed the treaty and 129 signed the final act of the treaty. Signing the treaty at the end of a diplomatic conference does not necessarily bind a country to its provisions. It is, however, a strong indication of intent by the signatory to join the treaty. The treaty enters into force once it has received 20 ratifications.
Current Developments – Europe

EUROPEAN UNION

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"In theory, ODR can be used in most civil and commercial disputes, from contracts to torts; from family to business; and from domestic to international cases. However, disputes that involve electronic transactions or internet-related cases are most suitable for the use of ODR services as the documents related to such cases are usually formed by electronic means. In practice disputes that use the ODR mechanism are mostly cases involving online shopping (small claims) and domain name disputes."

On 21 May 2013, the European Parliament and the Council adopted the first regulation concerning online dispute resolution (ODR), along with the EC Directive on Consumer ADR. They are considered to be two pieces of landmark legislation providing potentially simple, efficient, fast and low-cost means to resolve internet-related consumer disputes. This can also be an indication of the rise of ODR/ADR for solving Intellectual Property (IP) disputes in Europe, which echoes the feasibility of the deployment of alternative dispute resolution (ADR) in general or even as the default method for resolving IP disputes.

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According to this definition, the features of the ODR platform should be threefold: (1) a single point of entry at Union level; (2) an interactive website that is free of charge in all the official languages; and (3) an out-of-court dispute resolution.

The key feature of utilising electronic means in the ODR platform coincides with a generic definition of ODR proposed by the United Nations Commission on International Trade (UNCITRAL) in its Draft Procedural Rules on Online Dispute resolution for Cross-border Electronic Commerce Transactions 2013 (Article 2(1)), which states:

“ODR” means online dispute resolution which is a mechanism for resolving disputes facilitated through the use of electronic communications and other information and communication technology.

Scopes and Interlinked Relationships

Article 2(1) of the EU Regulation on Consumer ODR 2013 and Article 2 (1) of the EC Directive on Consumer ADR 2013 set similar scopes and interactive relationships in these two legal instruments. The scopes are the same in that they apply to:

- Out-of-court resolution.
- Disputes concerning contractual obligations.
- A consumer resident in the Union and a trader established in the Union (consumer contracts).
The intervention of an ADR entity. The distinctions of these two legal instruments draw upon the type of services: the EU Regulation on Consumer ODR 2013 specifically applies to online sales or service contracts, whereas the EC Directive on Consumer ADR 2013 generally applies to sales contract or service contracts. The EC Directive on Consumer ADR 2013 also emphasizes in its scope about the application to domestic and cross-border disputes and the facilitation of an amicable solution, whilst the EU Regulation on Consumer ODR 2013 does not have such wording in its scope though it generally promotes the use of the ODR platform to resolve disputes arising from cross-border online transactions throughout the Regulation.

The EU Regulation on Consumer ODR 2013 should be employed in line with the EC Directive on Consumer ADR 2013 in various respects that: (1) the selection of ADR entities should be in accordance with Article 20(2) of the EC Directive on Consumer ADR 2013 that each competent authority shall, on the basis of the assessment, list all the ADR entities that have been notified to it and fulfill the conditions; (2) the definitions should be consistent; (3) Member States may, at their discretion, permit ADR entities to maintain and introduce procedural rules that allow them to refuse to deal with a given dispute on the grounds; (4) an ADR entity should conclude the ADR procedure within the deadline; and (5) consumers should be provided with necessary information of services.

It is noteworthy that these two legal instruments exclude the application to health services and higher education, but are applicable to resolve IP contractual disputes between a consumer and a trader within Member States. This further reflects on the trend of promoting the use of ADR mechanisms in IP Disputes in the EU. This movement can be found in the adoption of the EU Regulation on Small Claims Procedure in 2007; the EC Directive on Mediation in 2008; and the launch of IP mediation services by the Office for Harmonisation in the Internal Market (Trademarks and Designs) (OHIM) in 2011. Subsequently, the OHIM published the Decision No 2011-1 of the Presidium of the Boards of Appeal of 14 April 2011 on the amicable settlement of disputes (‘Decision on Mediation’) and the Rules on Mediation. This is to promote mediation among other dispute resolution mechanisms, although mediation before OHIM is currently only available at the appeal stage in proceedings between two or more parties.

At the international level, the concept of ADR/ODR as a means for resolving international IP disputes has also been deployed since 1994 when the World Intellectual Property Organisation (WIPO) Arbitration and Mediation Centre was established to provide ADR services – arbitration and mediation for the resolution of international commercial disputes between private parties. Its WIPO Electronic Case Facility (WIPO ECAF) has been designed to offer time and cost efficient arbitration and mediation in cross-border dispute settlement. The request of mediation and arbitration for resolving all IP related disputes can be submitted by emails.

Since 1999, the WIPO Arbitration and Mediation Centre has been accredited by the Internet Corporation for Assigned Names and Numbers (ICANN) as an institution in the resolution of Internet domain name disputes. ICANN adopted the Uniform Domain Name Dispute Resolution Policy (UDRP), which went into effect on 1 December 1999 for all ICANN-accredited registrars of Internet domain names. In December 2008 WIPO submitted a proposal “eUDRP Initiative” to ICANN. The eUDRP Initiative proposed to remove the requirement to submit and distribute paper copies of pleadings relating to the UDRP process, primarily through the use of email in order to eliminate the use of vast quantities of paper and improve the timeliness of UDRP proceeding without prejudicing either complainants or respondents. As of 1 March 2010 WIPO UDRP parties must file Complaints (or Responses) including all annexes solely by electronic format. This is known as eUDRP. Since 1999, WIPO Centre has administered more than 41,000 proceedings, of which more than 26,000 were under the WIPO-initiated UDRP adopted by ICANN.

Features and Procedures

In response to a growing concern over the fragmentation of the internal market impeding efforts to boost competitiveness and growth, the EU Regulation on Consumer ODR 2013 and the EC Directive on Consumer ADR 2013 are adopted. These two legal instruments are to remove a barrier of the uneven availability, quality and awareness of simple, efficient, fast and low-cost means of resolving disputes arising from the sale of goods or provision of services across the
Union which undermines consumers’ and traders’ confidence in shopping and selling across borders. It is essential to dismantle existing barriers and to boost consumer confidence for online civil and commercial activities. The availability of reliable and efficient online dispute resolution (ODR) may be of great help to achieve such goal. That is to say, to boost consumers’ confidence, an ADR/ODR mechanism should have merits of being simple, reliable, efficient, fast and low-cost means. These credentials are specified by Recital 8 of the EU Regulation on Consumer ODR 2013 as an addition to its Recital 6 and also mirrored by another provision of the standard timeframe of resolving disputes as follows:

Where the parties fail to agree within 30 calendar days after submission of the complaint form on an ADR entity, or the ADR entity refuses to deal with the dispute, the complaint shall not be processed further. The complainant party shall be informed of the possibility of contacting an ODR advisor for general information on other means of redress.

In addition, each Member State is required to designate one ODR contact point in order to create an efficient and consistent ODR platform at Union level. The EU Regulation on Consumer ODR 2013 further provides a harmonised ODR procedure, which includes “submission of a complaint” (Article 8 of the Regulation), “processing and transmission of a complaint” (Article 9 of the Regulation) and “resolution of the dispute” (Article 10 of the Regulation). It requires that parties have to agree on an ADR entity to deal with disputes.

The EC Directive on Consumer ADR 2013 has established harmonised quality requirements for ADR entities and ADR procedures because different ADR entity may have different ADR procedures. In addition, various protective measures are also advised for the Commission, ODR advisors (controllers), ODR contact points and traders engaging in online sales/service contracts in order to protect database, processing of personal data, data confidentiality and security and consumer information. Finally, rules on effective, proportionate and dissuasive penalties for failure of ODR compliance are required to be specified by Member States.

As to the enforcement of settlements, it is possible that the outcome of the ADR procedure by electronic means may be binding or non-binding, which depends on the ADR entity that parties agree at the beginning of the process as a description of the characteristics of each ADR entity includes the binding or non-binding nature of the outcome of the ADR procedure.

The Rise of ODR/ADR for Resolving Intellectual Property Disputes

The procedural rules specified in the EU Regulation on Consumer ODR 2013 may potentially remove obstacles to the application of ADR/ODR systems to potential cases of cross-border IP Disputes. One of the obstacles for using an ODR mechanism for resolving IP disputes is users’ consent on the ODR/ADR agreements. It is considered to be unfair for consumers if an ODR/ADR clause is imposed in a sale/service contract. For example, in the case of Specht v Netscape Communications Corp., the Court ruled that the licence agreement for the Smart Download software was not binding on the plaintiffs and thus refused to compel arbitration for the plaintiff’s breach of the licence agreement, because Netscape’s SmartDownload (Shrink-wrap agreement) does not provide users any information or opportunity to assent to the terms of the associated licence or indicate an understanding that a contract is being formed before downloading and using the software.

Thus, if parties form an electronic arbitration agreement for consumer disputes after the dispute arises, such electronic arbitration agreement shall be assented to by both parties in order to be valid. Subsequently, the need to obtain the consent of all parties in dispute to submit to ADR systems that may raise difficulties in applying ADR systems to resolve IP disputes. With the employment of an initial “three-steps” of the ODR procedural rules in the EU Regulation on Consumer ODR 2013, informed consent may be more effectively collected:

- Submission of a complaint: in order to submit a complaint to the ODR platform the complainant party shall fill in the electronic complaint form. The complaint form shall be user-friendly and easily accessible on the ODR platform. (Article 8(1) of the Regulation).
- Transferal to the respondent party: upon receipt of a fully completed complaint form, the ODR platform shall, in an easily understandable way and without delay, transmit to the respondent party. (Article 9(3) of the Regulation).
- Agreement on ADR entity: information that the parties have to agree on an ADR entity...
in order for the complaint to be transmitted to it, and that, if no agreement is reached by the parties or no competent ADR entity is identified, the complaint will not be processed further (Article 9(3)(a) of the Regulation).

These steps are applicable to contractual obligations between traders in the Union and consumers in the Union including breach of domestic and cross-border IP contractual agreements within the scope of the regulation. Cross-border disputes shall be understood as disputes across member states’ national borders rather than international disputes within the context of the Regulation and Directive.

It is arguable that the ODR/ADR system can be employed to resolve international IP disputes if there are international agreements on cooperation using the ODR/ADR procedure resolving international IP disputes between Member States and a third country. Although the deployment of ODR/ADR means may improve efficiency, the complication of resolving international IP disputes may still remain as it is known that IP protection is territorial. It was suggested that the majority of IP cases have been brought to the courts due to the drawbacks of arbitration in resolving certain IP disputes such as patent infringement.42

Among IP-related contractual disputes, domain name infringement disputes are one of the most likely types of dispute to use ODR as domain names are non-territorial. Only one entity in the world can own the right to use a specific domain name and it can be accessed globally. In the absence of reliable and accurate contact details of the domain name registrants, it may lead to the situation that the plaintiff would find it hard to protect his/her rights against the defendant due to the missing link of the defendant's personal name and address. Specific rules concerning in rem jurisdiction are therefore established to tackle cybersquatting in absence of in personam jurisdiction.43

Such practice is widely adopted at the international level. The cooperation of ICANN and WIPO is a good example. ICANN is responsible for managing the generic top level domains, while WIPO is responsible for developing a balanced and accessible international intellectual property (IP) system.45 ICANN and WIPO-initiated UDRP adopt an out-of-court dispute resolution system that is identical to ODR system; and the UDRP has also established in rem action to apply to cybersquatting cases.

For instance, in the case of Barcelona.com, Inc. v Excelentíssimo Ayuntamiento de Barcelona,46 it shows how a party who lost a domain name dispute can obtain standing as a plaintiff in a federal court. Barcelona.com was registered by a Spanish couple, providing tourist information about Barcelona, e-mail services, a chat room, advertising and links to other websites. Before Barcelona.com, Inc started a lawsuit in a federal court, the City Council of Barcelona (Excelentíssimo Ayuntamiento de Barcelona), who have approximately 1000 registrations of the mark “Barcelona”, filed a complaint with WIPO and won the UDRP (Uniform Dispute Resolution Policy) proceedings. The domain name was ordered to be transferred to the City Council. Before the execution of the transfer, Barcelona.com, Inc commenced a lawsuit in the District Court for the Eastern District of Virginia, seeking a declaratory judgment and asserting that the registration of the domain name was not unlawful. The Court found that, first Barcelona.com, Inc was registered with the US registrar, NSI; second, it had a mailing address in New York but had no office space, no telephone number and no employees. This action therefore met the ACPA criteria for an in rem action. So, the domain name “Barcelona.com” was named as a complainant in the lawsuit in the US. The Court’s decision validated the transfer according to the ACPA through the in rem jurisdiction.

The success of the WIPO-UDRP domain name dispute resolution system may be the result of its credibility, transparency, self-enforcement and accountability.47 First, ICANN and WIPO are both public international organisations with authorities and different functions. WIPO’s participation in dealing with domain main dispute particularly adds credibility to the process due to its professional expertise and resources. Secondly, every dot.com registrant is compulsorily governed by the WIPO-UDRP without conflict of rules and procedures when disputes occur. Thirdly, Domain name case decisions are available online immediately in full text,48 which increases transparency of the procedure and imposes a degree of public accountability, which protects the rights of lawful domain name holders. Fourthly, the case is usually closed two months after filing and an administrative panel decision is implemented by the registrar 10 days after the decision is rendered.49 No foreign authorities can block the outcome, which promotes
the enforceability of settlement, although the WIPO-UDRP system can only grant the transfer or cancellation of the relevant domain name or reject the complaint. Lastly but most importantly, WIPO provides efficient domain name dispute resolutions service, as all complaints and responses can be completed and submitted directly online. The supplementary rule of the eUDRP Initiative reflects on the efforts of WIPO on promoting efficiency and improving quality in domain name online dispute resolutions.

The continuing globalisation of business transactions has meant that ADR has come to the forefront for IP disputes with multijurisdictional dimensions as the suitability of employing ADR for international IP disputes throw into sharp relief in terms of the nature of the disputes, the relationship of disputant parties and the number of cases. As shown in the Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions, the high percentage as to the types of dispute resolution clauses for IP cases can be found in court litigation (32%), arbitration (30%) and mediation (12%). It is estimated that "71% of WIPO mediation and arbitration cases administered have been international in scope".

It was suggested that, in order to further promote ADR/ODR methods in resolving a wider scope of international IP disputes, ADR methods for solving IP disputes could be imposed by regulations or the relevant public entities provided that such entities could exert a certain control over the resource at issue. Besides, the popularity of utilising ADR/ODR for international IP disputes may grow due to the optimisation of ADR/ODR mechanisms compared with court litigation. As indicated by the Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions, cost, time and enforceability are motivating factors for ADR for international IP disputes: "cost and time are the principal considerations for Respondents when negotiating dispute resolution clauses, both in domestic and international agreements. For international agreements, Respondents placed a higher value on enforceability and forum neutrality than they did for domestic transactions."

The rise of ADR for resolving other types of IP disputes (other than domain names) is evident from the statistic that "some 40% of the WIPO Center's arbitration and mediation cases relate to patents (almost all of which are contractual)."

Summary

After all the adoption of the EU Regulation on Consumer ODR 2013 and the EC Directive on Consumer ADR 2013 are evident to the recognition of the benefit of using an ODR mechanism for consumers’ contractual disputes concerning online transactions. The EC Directive on Consumer ODR 2013 modernises the offline ADR rules by recognising electronic means of communication in resolving disputes, while the EU Regulation on Consumer ODR 2013 regulates special procedures and principles of a consumer ODR mechanism. Such significant recognition and pioneer legislative models may be helpful for the future deployment, expansion and legal transplantation of an ODR mechanism from resolving domestic and regional IP Disputes within Member States to international IP disputes in a wider scope.

Although the EU Regulation on Consumer ODR 2013 and EC Directive on Consumer ODR 2013 mainly focus on the facilitation of consumer ODR/ADR between Member States, they can be potentially further developed into a helpful international ODR/ADR framework if international coordination of using ODR/ADR mechanisms had been promoted and set in these two legal instruments. If this dimension could be strengthened, it would facilitate the progress of international harmonisation in ODR/ADR procedures, enhance the standard of services and increase the legal certainty, users’ confidence and trust in ODR/ADR mechanisms in the global market. Taking into account the “work in progress” of the UNCITRAL Draft ODR Procedural Rules, a supplementary guidance to these two legal instruments may be of necessity to create a coherent regional legislative model that is in harmony with international legislation, and promote the international standard in ODR/ADR procedures, core legal principles, as well as technological and organisational measures for resolving consumer contractual disputes stemming from international online transactions.
Current Developments – Europe


5 EU Regulation on Consumer ODR 2013, Recital 13; and the EC Directive on Consumer ADR 2013, Article 4(1)(a).

6 EU Regulation on Consumer ODR 2013, Recital 13; and the EC Directive on Consumer ADR 2013, Recital 18.

7 EU Regulation on Consumer ODR 2013, Article 5(2).

8 See also the EU Regulation on Consumer ODR 2013, Recital 18.


10 EU Regulation on Consumer ODR 2013, Recitals 2, 7, 8 and 11.

11 EC Directive on Consumer ADR 2013, Articles 20(2)(4), 18(1) and 14(2).

12 EU Regulation on Consumer ODR 2013, Article 4.

13 EU Regulation on Consumer ODR 2013, Article 9; and the EC Directive on Consumer ADR 2013, Article 5(4).

14 EU Regulation on Consumer ODR 2013, Article 10; and the EC Directive on Consumer ADR 2013, Article 8.

15 EU Regulation on Consumer ODR 2013, Article 14; and the EC Directive on Consumer ADR 2013, Article 13.


28 EU Regulation on Consumer ODR 2013, Recital 4; and the EC Directive on Consumer ADR 2013, Recitals 3 and 4.

29 EU Regulation on Consumer ODR 2013, Recital 4; and the EC Directive on Consumer ADR 2013, Recitals 3 and 4.

30 EU Regulation on Consumer ODR 2013, Recital 6.

31 EU Regulation on Consumer ODR 2013, Recital 6.

32 EU Regulation on Consumer ODR 2013, Article 9(8).

33 EU Regulation on Consumer ODR 2013, Article 7(1).

34 EU Regulation on Consumer ODR 2013, Article 9(3).

35 EC Directive on Consumer ADR 2013, Article 2(3).

36 EU Regulation on Consumer ODR 2013, Articles 11, 12, 13 and 14.

37 EU Regulation on Consumer ODR 2013, Article 18.

38 EU Regulation on Consumer ODR 2013, Article 9(5)(b).

39 Specht v Netcape Communications Corp., 150 F. Supp. 2d 585 (SDNY 2001), aff’d, 306 F. 3d 17 (2d Cir. 2002).


44 The Internet Corporation for Assigned Names and Numbers (ICANN), available at http://www.icann.org/ (last visited on 22 July 2013).


49 The UDRP Policy, Paragraph 4(k).


53 Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions, March 2013, p.15.


55 Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions, March 2013, p.25.
France, along with England, Germany, Sweden and Norway, has been one of the very first countries to adopt strict legislation relating to personal data collection and processing. The French framework has been enacted by Law n78-17 regulating information technology, files and liberty, dated 6 January 1978 (French Data Protection Law), as amended (like almost all European countries) within the framework of the implementation of EC Directive n95/46.

Pursuant to Article 22 of the French Data Protection Law, data controllers will proceed with formalities before the French Data Protection Authority (CNIL) prior to any personal data collection and/or processing. Failure to comply with such obligation is punished by heavy criminal sanctions. In practice, such sanctions are rarely ordered by the CNIL or French Courts, given that criminal sanctions are to be interpreted strictly. The impact on contractual obligations of non-compliance with the French Data Protection Law is however not addressed by the Law. Article 1128 of the French Civil Code provides that agreements must relate to “things which may be the subject matter of legal transactions”, hence allowing the French Judiciary to sanction agreements which have an unlawful subject matter. By way of example, Article 1128 of the French Civil Code has in the past grounded the cancellation of contracts of sale pertaining to counterfeited goods, or contracts entered into with surrogate mother, which is prohibited under French law.

The interaction between the French Data Protection Law and French contract law was precisely at the heart of the recent and unprecedented decision dated 25 June 2013, rendered by the French Supreme Court. In this decision, Mr M., an individual, had purchased a file containing personal data from a company called Bout-Chard. The file, which was supposed to contain approximately 6,000 references of potential clients, resulted in containing barely 1,954 of them. Mr M initiated an action so as to obtain the cancellation of the sale. Amongst the numerous grounds raised before the Judge, Mr M. notably contended that the subject matter of the agreement was unlawful, due to the fact that the litigious file containing personal data had not been notified to the CNIL.

On 25 June 2013, the French Supreme Court, on the ground of Article 22 of the French Data Protection Law and Article 1128 of the Civil Code, ruled that “any file containing personal data must be notified to the CNIL […] the sale by the company Bout-Chard of such a file, which had not been notified […] had an unlawful subject matter”. There remain few doubts that the Court of Appeal before which the matter will be referred will cancel such contract of sale pertaining to the litigious file.

It is noteworthy that the Court of Appeal in this matter had considered that the agreement was valid due to the fact, notably, that the notification of the personal data file could have been performed before the CNIL at any time so as to regularise the situation. That argument was quashed by the French Supreme Court. Consequently, operators will have to pay a particular attention the actual performance of CNIL formalities prior to the effective date of the contract of sales.

In addition, the French Supreme Court decision may impact not only on contract of sales, but also on all types of agreements relating to personal data. Article 1128 of the French Civil Code does not only relate to contract of sales but, rather, draws a common condition of validity which applies to all types of contractual obligations.

This decision is undoubtedly susceptible to make companies which undertake activities closely connected to the collection and processing of personal data vulnerable. Such companies will have to comply with the French Data Protection Law not only so as to avoid criminal sanctions, but also to prevent their partners from claiming cancellation of the agreements entered into with them.

Emmanuel Baud and Edouard Fortunet.

The European Court of Justice Confirms its Interpretation of the Genuine Use of a Trade Mark in a Different Form

Both the EU Trade Marks Directive and Regulation require that the proprietor of a trade mark puts its trade mark to genuine use. Non-compliance with this obligation during a period
of five consecutive years, and in relation with the goods or services in respect of which the trade mark is registered, may result in the revocation of the trade mark.

Articles 10(1)(a) of the Directive and 15(1)(a) of the Regulation provide that the use “in a form differing in elements which do not alter the distinctive character of the mark in the form in which it was registered”, may constitute genuine use, allowing proprietors to establish use of their trade marks with a greater ease.

Various national jurisdictions have recently referred preliminary ruling pertaining to such provisions, which lead the European Court of Justice (ECJ) to clarify the meaning of the term “genuine use”.

A first important decision was rendered on 25 October 2012 in the Rintisch case, where the ECJ ruled that:

the proprietor of a registered trademark is not precluded from relying, in order to establish use of the trade mark [...] on the fact that it is used in a form which differs from the form in which it was registered [...] even though that different form is itself registered as a trade mark.

In this decision, the Judges confirmed that the only criterion to be assessed is whether the differences between the two forms are altering the distinctive character of the trade mark, irrespective of whether other trade mark registrations may exist or not.

This decision was later confirmed by a judgment rendered on 13 April 2013 in the Colosseum / Levi Strauss case, where the ECJ held that genuine use of a registered trade mark may be satisfied in a situation where the trademark at stake is used only :(1) through another composite mark; or (2) in conjunction with another mark, to the extent it can be evidenced that such trademark remains distinctive in the overall sign.

On 18 July 2013, in the Specsavers decision, the ECJ took the opportunity to further refine its interpretation. In that case, the defendant in infringement proceedings contended that the genuine use of the wordless graphic device mark opposed to him could not be established through the use of the graphic device mark comprising such word. The ECJ rejected the defendant’s argument and ruled that genuine use may be fulfilled in a situation where a figurative mark is used only in conjunction with a word mark which is superimposed over it and where, in addition, the combination of those two marks is also registered as a trademark.

The reasoning of the ECJ is underpinned by the fact that: (1) the trade mark proprietor should be allowed to make variations to its sign while exploiting it commercially; and (2) the Directive, the Regulation as well as article 5(C)(2) of the Paris Convention are silent regarding the impact of a possible registration of the different form.

The ECJ interpretation varies from the French Supreme Court’s stance, which ruled (on the basis of the Bainbridge decision of the ECJ), that the genuine use in a different form cannot be established through a different form, if that specific form was also subject to a trade mark registration. Given the ECJ case law which is binding upon French Judiciary, the solution will undoubtedly evolve towards a solution which is more favourable to trade mark proprietors in the coming years.

Emmanuel Baud and Philippe Marchiset

1 This report reflects only the personal views of the authors and should not be attributed to the authors’ Firm or to any of its present or future clients.
3 Article 226-16 of the French Criminal Code provides that “processing personal data or causing personal data to be processed, without respecting the formalities required by law prior to the processing of such data, is punished by five years’ imprisonment and a fine of €300,000, even where committed through negligence”.
4 French Supreme Court, decision n 01-11504 dated 24 September 2003.
5 French Supreme Court, decision n 90-20105 dated 31 May 1991.
6 Decision n12-17037, available on the website of the French Supreme Court.
7 Article 10 of the Directive 2008/95 EC of 22 October 2008 to approximate the law of the Member States relating to trade marks
9 Case C-553/11.
10 Case C-12/12.
11 Case C-252/12.
12 The Bainbridge case (European Court of Justice, September 13, 2007, C-234/06) held that in the case of a family of trade marks, likelihood of confusion could only be found with regards to each trade mark at the condition that earlier trade marks are present on the market.
13 See notably, French Supreme Court, 16 February 2010, decision n08-21079.
Supreme Court Rules that Damages No Longer Payable for “Infringement” of an Invalid Patent

Virgin Atlantic Airways Ltd v Zodiac Seats UK Ltd

[2013] UKSC 46
URL: http://www.bailii.org/uk/cases/UKSC/2013/46.htm

Introduction
In this case, the Supreme Court of England and Wales had to determine whether a party that had been found to infringe a European patent (UK) was liable to pay damages for such infringement notwithstanding subsequent events resulting in the limitation of the relevant claims meaning that the product in question was no longer infringing.

In the damages enquiry which followed a finding of infringement, Virgin Atlantic Airways Limited (Virgin) claimed £45 million. Zodiac Seats UK Limited (Zodiac) sought to rely on the fact that the claims of Virgin’s patent had been limited with ab initio effect to argue that the “damage” suffered by Virgin should be assessed as “nil”. The Judges, at first instance and in the Court of Appeal, followed the well-established authority of the Court of Appeal and held that Zodiac was precluded from raising the subsequent limitation of the patent because the questions of validity and infringement were already res judicata as between the parties.

The Supreme Court disagreed and overruled those earlier decisions.

Background
In May 2007, Virgin obtained a European patent for “seating a passenger accommodation unit for a vehicle” (Virgin Patent) and subsequently commenced infringement proceedings in the High Court in London against Zodiac for the manufacture and supply of a product known as the “Solar Eclipse” seat. Judgment was given in January 2009: the Virgin Patent was held to be valid but not infringed. Virgin appealed on the finding of infringement and Zodiac cross-appealed on validity.

In parallel, the validity of the Virgin Patent was challenged in post-grant opposition proceedings before the European Patent Office (EPO). At an oral hearing in March 2009, the Opposition Division of the EPO upheld the claims of the patent in all material respects. Zodiac and the other opponents immediately indicated their intention to file an appeal to the Technical Board of Appeal (TBA) of the EPO.

Following a hearing in October 2009 the Court of Appeal found the Virgin Patent valid and infringed. Zodiac then applied for a stay of the relief (injunction, delivery up and damages) pending the outcome of the parallel appeal before the TBA. The Court of Appeal refused that application on the basis that a stay was pointless since even if the Virgin Patent was revoked by the TBA it would make no difference in view of the principle established in Unilin Beheer BV v Berry Floor NV [2007] FSR 25 (Unilin).

In September 2010, the TBA declared certain claims of the Virgin Patent to be invalid, the statutory effect being that those claims were to be treated as if they had never existed.

In light of the TBA decision, the injunction previously granted against Zodiac was discharged by consent meaning that Zodiac would be free to deal with the Solar Eclipse product going forward. However, Zodiac also sought a release from inter alia the obligation to pay royalties at a rate of £10,000 per seat as well as repayment of the £3.9 million already paid and made an application to vary the final order made by the Court of Appeal to this effect. This application was refused by the Court of Appeal because the enquiry as to damages was no more than a mechanism for giving effect to the finding that the patent was valid and infringed which was res judicata. Zodiac appealed to the Supreme Court.

The final twist in the tale occurred in July 2012 when, in proceedings brought by Virgin against Zodiac’s customers, the High Court held that the Solar Eclipse product did not infringe the limited form of the Virgin Patent.

The Supreme Court Judgment
In a unanimous decision, the Supreme Court held that the approach of the Court of Appeal was in error and no estoppel arose to prevent Zodiac from raising the fact of limitation of the Virgin Patent at the enquiry stage.

The previous decisions on which the lower courts had relied, in particular those in Unilin and Coflexip SA v Stolt Offshore MS Ltd (No 2) [2004]
FSR 34 (Coflexip), were based on a misapplication of the English law doctrine of "cause of action estoppels", part of the wider doctrine of res judicata.

In English law, the doctrine of cause of action estoppel provides broadly that once a cause of action has been held to exist or not to exist as between two parties, neither party may challenge that outcome in subsequent proceedings. The estoppel is absolute if either party subsequently seeks to re-raise any point previously decided. Moreover, the estoppel prevents either party raising a new point relating to the existence of the same cause of action if that point could with reasonable diligence, and should in all the circumstances have been raised earlier.

In the present case, as it had done in Unilin and Coflexip, the Court of Appeal had proceeded on the basis that to raise the issue of limitation of the patent in suit during an enquiry as to damage was to re-raise a point already determined at trial, namely the question of validity. In the Supreme Court's view, the "essential fallacy" of this approach was that it wrongly proceeded on the basis that "cause of action estoppel" is always absolute. That is not the case. Cause of action estoppel is only absolute in relation to points that have actually been decided between the parties. To raise the fact of a subsequent limitation of the Virgin Patent during a damages enquiry was not to re-raise a point that had already decided. It was not seeking to re-raise points as to why the claims of the patent should be limited based upon prior art that had been or could and should have been relied on by Zodiac on an earlier occasion. On the contrary, it was the raising of a point (in this case, the fact of limitation) that had not and could not have been raised at an earlier stage. In the circumstances, a cause of action estoppel did not arise.

The Supreme Court singled out two aspects of the decision in Unilin for particular criticism. In that case, the Court of Appeal justified the approach it felt bound to apply following the earlier decision in Coflexip on the basis that it promoted certainty at an earlier stage (i.e. without the parties having to wait for a decision in parallel proceedings) and, in the event that the underlying patent rights were ultimately declared invalid, any injunction against future infringements could always be discharged.

As to certainty, the Supreme Court commented that the Court of Appeal had been wrong to assume that the EPO would always be "the slowest horse in the race", especially given the possibility of two potential tiers of appeal in England. In any event, the current approach did not create certainty but rather made the outcome dependent on the "wholly adventitious" factors. In this case, for example, the EPO's decision to limit the claims of the Virgin Patent had been delayed due to disruption caused by a volcanic eruption in Iceland! As to the ability to discharge any injunction restraining future infringements, it said the distinction between past and future infringements makes "no sense" given a finding of invalidity had effect ab initio.

Comment

It is difficult to disagree with the logic or fundamental policy considerations underlying the Supreme Court's judgment and this decision. It does, however, raise two further interesting points.

First, in this case the damages enquiry had not yet been concluded. So, Zodiac was now free to argue that damages should be assessed at "nil" and, therefore, that it should not be ordered to make any payment to Virgin. However, the Supreme Court noted that, at least in principle, there is no reason why the same approach should not be applied in cases where damages have been assessed and indeed paid. In such cases, it may now be open to bring a claim in restitution for repayment of damages that have been paid, albeit such cases are likely to be heavily fact specific. It remains to be seen whether this decision will open the "floodgates" to such claims.

Secondly, in many ways, the particular facts in this case made the Supreme Court's decision straightforward in that it had the benefit not only of the decision of the EPO on validity, but also of a subsequent High Court finding that the Solar Eclipse product did not infringe the Virgin Patent in amended form. But what happens when it is not so clear whether the amended claims of the patent are infringed or not? Whilst the Supreme Court did not address this issue, one possibility might be to seek a declaration that the relevant product does not infringe the amended claims, with a subsequent claim in restitution to follow in the event damages have already been paid. However, this does not answer the tricky question of what happens if such a limitation takes place after a first instance decision on infringement but before all avenues of appeal have been exhausted? Two possibilities are that the appeal courts refer the case back to the first instance court for a re-trial or stay the appeal pending a further action on the amended claims. We shall have to wait for a case in which that particular
Two recent decisions of the English Court of Appeal in passing off cases confirm the role of that Court of Appeal should play when hearing appeals – and when it should interfere with the first instance Judges' findings of fact (and law). While the principles have not been called into doubt, these two cases show that these principles are not always applied consistently.

Fine & Country

The claimant ran a network of franchised estate agency offices operating under the registered trade mark shown below.

The defendants began operating an estate agency under the marks shown below, and the claimant sued for both passing off and for infringement of its registered UK and Community trade marks. The defendants counterclaimed for invalidity of the registered trade marks and defended on the basis that, essentially, they were using a laudatory term which should remain free for use.

At first instance, the claimant succeeded on all of its claims and the counterclaims were dismissed. The defendants appealed. Lord Justice Lewis gave the leading Judgment of the Court of Appeal, with which Lord Justice Lloyd and Lady Justice Gloster agreed.

In his judgment, Lewis LJ summarised the role of the Court of Appeal when hearing an appeal against findings of fact findings and value judgments or “multi-factorial assessments”. Such assessments are common to both passing off actions (is there protectable goodwill? is there a misrepresentation?) and to trade mark infringement actions (is there a likelihood of confusion? Does the use complained of cause detriment?). That role was clearly stated by Lewis LJ:

[50] The Court of Appeal is not here to retry the case. Our function is to review the judgment and order of the trial judge to see if it is wrong. If the judge has applied the wrong legal test, then it is our duty to say so. But in many cases the appellant’s complaint is that… the judge has incorrectly applied the right test… Many of the points… were essentially value judgments… multi-factorial assessments. An appeal court must be especially cautious about interfering with a trial judge’s decisions of this kind… I take as representative Lord Hoffman’s statement in Designers Guild Ltd v Russell Williams (Textiles) Ltd [2000] 1 WLR 2416, 2423:

“because the decision involves the application of a not altogether precise legal standard to a combination of features of varying importance, I think that this falls within the class of case in which an appellate court should not reverse a judge’s decision unless he has erred in principle”.

Lewis LJ went on to quote from other cases regarding when an appellate court could and should interfere with a first instance Judge’s findings, including the House of Lords case in Smith New Court Securities Ltd v Citibank NA [1997] AC 254, where Lord Steyn said, at 274:

The principle is well-settled that where there has been no misdirection on an issue of fact by the trial Judge the presumption is that his conclusion on issues of fact is correct. The Court of Appeal will only reverse the trial judge on an issue of fact when it is convinced that his view is wrong… if the Court of Appeal is left in doubt as to the correctness of the conclusion, it will not disturb it.

Lewis LJ then addressed each of the grounds of appeal raised by the defendants one by one and assessed whether the first instance Judge, Hildyard J, had erred in principle or had made a decision that was plainly wrong on the facts. Other than one aspect of the counterclaim of invalidity of the
registered trade marks, which did not affect the outcome to dismiss that counterclaim, the Judge had not misdirected himself and his reasoning and conclusions were not wrong. It was therefore not open to the Court of Appeal to decide the case of its own volition.

**Lumos**

In this case, the claimant had sued the defendants for passing off. The claimants had begun trading in skin care products under the mark “LUMOS” by the time the defendants began trading in nail care products, marketed under the identical mark, “LUMOS”. At first instance, the Judge, Mr Recorder Douglas Campbell, sitting in the Patents County Court, had found that the requisite misrepresentation was not made out and dismissed the claim. The claimants appealed.

On appeal, the Court of Appeal held, by a majority of 2:1, that the Judge was wrong in his conclusion that there was no misrepresentation, and accordingly upheld the claim and granted an injunction.

Lord Justice Lloyd (who had sat with and agreed with Lewison LJ’s judgment in the *Fine & Country* case) gave the judgment of the majority. He held that although the judge below “was applying the correct legal test, he wrongly applied it by reference to a view of the facts... which was inconsistent with the evidence and with his own findings elsewhere in the judgment”. Such an error, according to Lloyd LJ, resulted in the judge making a finding (that the necessary misrepresentation was not made out) which was reached as a result of his misdirection.

In the dissenting judgment, Sir Bernard Rix stated [from 99–109]:

I confess I am not attracted by the solution which has appealed to my Lords. It seems to me that the matter has in effect been retried in this court after a careful enquiry in the court of trial... The judge... found... that no misrepresentation had been established. Whatever criticisms might be made of the expression of some of that reasoning, it was essentially a factual conclusion, based on the factual findings which the judge had been developing throughout his judgment... All in all, the judge was asking himself an essentially jury question, and he was best of all placed to answer it... I do not think it would be right, against the backgrounds of the judge’s findings, for this court to find for itself a case of passing off.

Sir Bernard Rix was satisfied or, to use the words of Lord Steyn quoted in the *Fine & Country* case, may have been “left in doubt” as to whether or not, it was correct, but, on the basis that it was a factual conclusion on the factual findings which the judge had been developing throughout his judgment, would not have interfered with the finding.

**Comment**

Passing off cases generally turn on their facts and this makes them more difficult to appeal. The *Lumos* decision however indicates that the Court of Appeal will intervene in such cases when they feel justice requires it. However, the strong dissenting judgment of Sir Bernard Rix shows that in this case the Court of Appeal was operating close to the limits of its powers of review. The fact that Lloyd LJ sat on, and agreed with the prevailing view in both appeals suggests that the apparent inconsistency in the outcomes of these two cases is more to do with their particular facts rather than variance in the application of the principles for when to interfere with the lower court’s finding by different Lord Justices of the Court of Appeal.

**Registered Community Designs Can Have a Broad Scope of Protection**

**Magmatic Limited v PMS International**

[2013] EWHC 1925 (Pat)

URL: http://www.bailii.org/ew/cases/EWHC/Patents/2013/1925.html

On 11 July 2013, the Patents Court of the High Court of England and Wales gave a judgment in a case concerning, inter alia, a Registered Community Design (RCD) for a ride-on suitcase for children, sold under the brand name ‘Trunki’. A number of interesting points arise from the judgment in that it provides useful guidance on: when disclosure of a prior design is too obscure to be relied upon; what comprises the “design corpus” against which the overall impression of a design is assessed; who the “informed user” of an article is; and whether surface decoration is relevant when comparing two designs.
Background

The first Trunki was sold in the UK in 2004. The product has proved to be quite a success and is now a common sight in UK airports. It is estimated that 20% of 3-6 year olds in the UK own a Trunki. The product has also attracted attention because it has been successful despite failing to attract investment when it appeared on the popular TV program Dragon's Den.

Mr Law, the founder (and a director) of the Claimant designed the Trunki. The first prototype design (called the "Rodeo") was produced for a student design competition which he entered (and won) in 1998. Further development of the Rodeo gave rise to the design for the first production version of the Trunki. A RCD was filed in respect of this design in June 2003.

The defendant manufactures, imports and distributes a range of products, and has a strong presence in the discount sector of the retail market. In late 2012, the defendant commenced to sell a similar, but low-cost, product which they named the "Kiddee Case", the design of which was admitted to have been inspired by the Trunki.

Obscure Disclosure

In order for a RCD to receive protection in the Community, it must be new and have individual character (Article 4 of Council Regulation 6/2002 (Regulation)). Both of these criteria are to be assessed by what has been made available to the public prior to the priority date of the RCD (see Articles 5 and 6 of the Regulation).

Under Article 7 of the Regulation a design is not considered to have been “made available to the public” if, inter alia, its disclosure “could not reasonably have become known in the normal course of business to the circles specialised in the sector concerned, operating within the Community”.

The defendant relied on the Rodeo design as prior art and argued that it had been made available to the public in 1998 by virtue of posters displayed at the award ceremony at which Mr Law was crowned winner of the design competition. There was no dispute that the award ceremony was a public event, and that the Rodeo was displayed to the attendees. However, the claimant contended that such disclosure was obscure enough to fall into the exception in Article 7 and relied particularly on the fact that the competition was for plastics designs (albeit that the theme was luggage), the award ceremony was attended mainly by relatives and friends of the students who had entered the competition, and that the design was not publicised more widely following the award ceremony.

The Judge found that the disclosure of the Rodeo fell outside the obscure disclosure exception since the claimant had failed to show that the design could not reasonably have become known in the normal course of business to circles specialised in the suitcase sector. The Judge's finding that the design competition was well-known in the field of product design at the time, and that those in the suitcase sector would probably have been aware of the luggage theme of the competition was fatal.

The Design Corpus and Informed User

The design corpus sets the backdrop against which the overall impression of a design is to be assessed and the overall impression of a design is to be assessed through the eyes of the informed user (Recital 14 of the Regulation). The concepts of the “design corpus” and the “informed user” are relevant to questions of validity, but also have a bearing on infringement because the scope of protection “shall include any design which does..."
not produce on the informed user a different overall impression” (Article 10 of the Regulation).

The parties agreed that the informed users of the Trunki design were: (1) a 3-6 year old child and; (2) a parent, carer or relative of such child. Since there was no dispute about this it was accepted by the Judge, although indicating that he was “dubious” about this in view of the fact that young children will inevitably not be purchasers of the Trunki.

The defendant argued that the design corpus includes everything that has been made available to the public in accordance with Article 7 and therefore included the Rodeo design. This was rejected by the Judge who agreed with the claimant that the design corpus only includes the designs with which the informed user is likely to be familiar. Consequently, the Judge held that that due to the “relative obscurity” of the Rodeo, it did not form part of the design corpus.

Accordingly, the RCD was found to represent a substantial departure from that design corpus, and because the Judge considered that Mr Law had had considerable design freedom when designing the Trunki, the RCD was entitled to a broad scope of protection.

Surface Decoration

In the approach to be taken to the assessment of the overall impression produced on an informed user respectively by the RCD and the Kiddie case, there was one point of contention between the parties: the extent to which surface decoration should be taken into account. The Judge followed the approach taken in Procter & Gamble Co v Reckitt Benckiser (UK) Ltd [2007] EWCA Civ 936, which made a shape for shape comparison between the RCD and the alleged infringement, ignoring any graphical designs on the surface of the infringement.

Comment

There is relatively little case law on the “obscure disclosure” exception afforded by Article 7 of the Regulation, so this case provides useful guidance on how this exception is to be interpreted. Although neither party raised the issue, the Judge noted that the wording of the exception might require clarification from a referral to the Court of Justice of the European Union, and there is already one pending reference seeking guidance on its interpretation: H. Gauzitz Groshandel GmbH v Münchener Boulevard Möbel Joseph Duna GmbH (Case C-479/12).

The Judge made it clear that the design corpus is comprised of designs with which the informed user is likely to be familiar, not all designs which have been made available to the public. Therefore, there may be designs, like the Rodeo design, which are not obscure enough to fall within the obscure disclosure exception of Article 7 (and therefore, they do constitute prior art), but which nevertheless are not familiar enough either to form part of the design corpus for the purposes of assessing the “overall impression” created by a design on the informed user.

In this case, however, the fact that the Rodeo design did not form part of the design corpus made no difference to the outcome of the case since the defendant used the Rodeo design as an invalidity squeeze on infringement, saying that Rodeo design was at least as close to the RCD as the Kiddie Case design. The Judge’s conclusion that the RCD was valid and infringed was therefore based on his assessment that the Kiddie Case design was closer to the RCD than the Rodeo design.

The Judge’s decision not to follow Samsung v Apple concerning the relevance of surface decoration seems to restore the position to as it was before that case, i.e. in general surface decoration will not be taken into account. The Judge distinguished Samsung v Apple on the basis that in that case it was accepted that the lack of any surface ornamentation was an important feature of the registered design (despite this not being recorded on the register entry). If this approach is maintained, it seems that the approach taken in Samsung v Apple will be largely confined to rare cases where the absence of surface decoration is a significant aspect of the registered design.

Despite all the legal points of interest, perhaps the most encouraging aspect of this decision is the outcome itself. Despite clear differences in a number of respects between the Kiddie case and the CRD, the Kiddie case was found to infringe. This rather bucks the trend of very similar articles being found not to infringe registered designs and should restore some faith in the notion that RCDs can afford meaningful protection for commercial designs.
Brand Genocide

We all know GOOGLE. It is a facility that enables us to source information on the internet. The word GOOGLE indicates the identity of a particular service provider and distinguishes those services from similar services rendered by others, such as YAHOO. Each service provider designates its particular services by means of such a mark. The word GOOGLE is a brand or trade mark fulfilling its role as a badge of origin. It is exceptionally well-known, world-wide. This renown or repute has been brought about by extensive public exposure of the mark to the public through use of it in advertising, on banners, on product packaging and the like. It is a household word.

GOOGLE is one of the largest and most successful multinational companies. Have you ever paused to wonder what its most valuable asset is? Is it the massive bank of computer hardware, its portfolio of software, or its real estate holdings? No, it is the trade mark GOOGLE. This trade mark has been valued at $44.3 billion and is rated as the most valuable trade mark in the world. It constitutes nearly a third of the company’s total value.

A trade mark is created and sustained by being used in trading activities, i.e. in advertising, on labels and the like. The strength and value of a trade mark is dependent on the extent of its use. If such use is discontinued, the trade mark will wither and die. Think of trade marks like STUDEBAKER for cars, INSTAMATIC for cameras, CAVALLA for cigarettes, IPANA for toothpaste. They were all famous in their day but they have now been extinguished on account of non-use. Like flares shot into the night sky, they have burned brightly for a while but have faded away to nothing. Trade marks die if they are not used. Valuable items of property are destroyed in this manner.

This scenario is about to unfold before our very eyes.

A global war has broken out against smoking and tobacco products. Instigated by the World Health Organisation, countries, South Africa included, have banned advertising and promotion of tobacco products and brands. This has severely dented the usage of tobacco trade marks. The war has now entered a new phase and a second offensive has been launched with Australia at the forefront.

Other countries are following it into battle and the South African Government has indicated that it will soon take up arms and join them.

The new offensive attacks the use of brands on the packaging of tobacco products, by means of legislation banning pictorial trade marks. The Australian so-called “plain packaging” legislation allows the use of only word trade marks, in plain print of very small size, against a faun coloured background, to appear, along with anti-smoking wording and lurid pictures of potential damage to health, on the product packaging. This legislation sounds the death knell of all logo and label trade marks, most of which are registered separately under trade marks legislation. Such trade marks are, by virtue of their enforced discontinuation of use, destroyed, literally by the stroke of a pen. Valuable items of property are summarily obliterated. This form of mass extermination amounts to brand genocide.

The question may be asked whether it is equitable and reasonable that valuable items of intellectual property should be destroyed in this manner in pursuit of the goal to curtail smoking. Is diminishing the ability of the public to distinguish the cigarettes produced by one company from those produced by another company, in other words curtailing the function of a trade mark as a “badge of origin”, likely to stop new smokers from entering the market? Is this destruction of property by the state lawful?

Major international tobacco companies brought this question before the Australian High Court in a challenge to the constitutional validity of the plain packaging legislation. It was argued that the legislation infringed against the clause of the Australian Constitution that protects private property. The Court conceded that the prevention of the use of trade marks amounted to the “taking” of property from the trade mark owners but found that such action did not give rise to the “acquisition” of that property by the State as contemplated by the property clause. It therefore held the legislation to be constitutionally valid.

The decision of the Australian High Court precipitated victory celebrations around the world, including in South Africa, as though VE Day had arrived. The assumption was made that, if plain packaging legislation could survive a constitutional challenge in Australia, it necessarily follows that the same will apply in other countries. Following this decision, the South African Minister of Health.
glibly stated that this country will emulate the Australian legislation and a draft bill to this effect is expected any day.

Is our Minister being too gung ho and jumping to conclusions too hastily? The property clause in our Constitution differs significantly from the equivalent clause of the Australian Constitution. Our property clause provides essentially that no law can permit an arbitrary deprivation of property and that, moreover, if a deprivation of property amounts to expropriation, reasonable compensation must be paid. Compared to the Australian Constitution, the emphasis is on the deprivation of property rather than on its acquisition by the State.

There can be little doubt that preventing trade marks from being used, and thereby destroying them, amounts to a deprivation of property. The crucial question is whether, in the circumstances of the matter, the deprivation is arbitrary as contemplated by the property clause. “Arbitrary” in this context has been interpreted to mean that there is no sufficient correlation between the objective sought to be achieved and the deprivation of the property. It is felt that the mere presence of a logo, as distinct from a word trade mark in plain print (which is allowed), on a cigarette pack is unlikely to be the root cause of a non-smoker deciding to take up smoking. The destruction of a logo trade mark is thus arbitrary in the context.

There is legal authority for the proposition that the total destruction or nullification of property, which does not entail the passing of ownership of it to the State, can amount to expropriation of that property. This is certainly the situation that prevails in the present instance. Is the Minister willing to pay compensation to the tune of millions of Rand for every trade mark destroyed? Brand genocide could turn out to be an expensive exercise!

It therefore appears that, if the Minister goes ahead with his proclaimed intention of cloning the Australian plain packaging legislation, he is likely to encounter a strong challenge that his legislation in unconstitutional. The battle won against tobacco trade marks in Australia is thus only of local significance and a fresh battle, with a different outcome, may be looming in South Africa.

The moral of the story is that, if the Minister wants to curtail smoking, and really believes that this is achievable by means of legislation, he should look elsewhere than at trade marks (which are but irrelevant pawns in the game) in order to achieve his objective.

* Based on the author’s inaugural lecture delivered at Stellenbosch on 21 May 2013.
Current Developments – Canada

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Use It or Lose It: Federal Court of Canada Clarifies “Use and Registration Abroad” Filing Basis Requirements

A recent decision of the Federal Court of Canada in *The Thymes LLC v Reitmans (Canada) Limited* (2013 FC 127) considered whether trade marks must be in use abroad at the time the application is filed in order to claim “use and registration abroad” as a filing basis. It was held that use abroad at the time of filing is a requirement. There had previously been uncertainty with respect to this issue. As a result, the validity of some Canadian trade mark applications and registrations which include this filing basis may be in question.

An application for THYMES was filed by The Thymes LLC (the applicant) on the basis of proposed use of the mark in Canada as well as use and registration of the mark in the United States. The application was opposed by Reitmans (Canada) Limited (the opponent). The Registrar of Trade Marks refused the application and the applicant appealed the decision to the Federal Court. One of the grounds of appeal was that the Registrar erred in finding that use of the THYME trade mark in the United States was required as of the date of filing of the application in Canada in order to make a valid claim under s.16(2) of the *Trade Marks Act*.

Although it had generally been the view of many trade mark lawyers that use of the applied-for mark had to be occurring in the country of origin of the applicant at the time of filing in Canada, the Federal Court had not previously ruled on this issue.

The Federal Court held that s.16(2) of the *Trade Marks Act* clearly requires that there be use of the mark in the country of origin of the applicant at the time the application is filed in Canada in order to rely on this section as a valid basis to obtain registration in Canada. The Court then considered whether the application could proceed on the basis of proposed use in Canada but, because the marks were held to be confusingly similar, the application was refused.

However, if “use and registration abroad” is not used as a filing basis and use of the mark subsequently commences in the country of origin of the applicant after the filing of an application in Canada, the “use and registration abroad” filing basis may still be claimed by amending the application to include it at any time prior to advertisement.

This case highlights two things. Trade mark applicants in Canada will have to carefully consider whether the “use and registration abroad” claim is appropriate at the time of filing, and whether the application can be amended at a later date to include this filing basis.

It is important to coordinate international trade mark filings. In this case, the evidence relating to lack of use in the country of origin of the applicant came from the first use information provided by the applicant in the application it had filed in the United States.
Current Developments – United States

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Divided Infringement of System Claims under the Federal Circuit’s Centillion Decision – An Additional Ground for Non-Infringement

After the Federal Circuit’s *Centillion Data Systems, LLC v Quest Communications International, Inc.*, 631 F.3d 1279 (Fed. Cir. 2010) decision and the District Court decisions that have followed, it is clear that joint or divided infringement can be a powerful defence to patent infringement regardless of whether the asserted claims are method claims or system claims.

In the *Centillion* decision, the Federal Circuit admittedly addressed for the first time the issue of infringement under §271(a) for “use” of a system claim that contains limitations that require the action of more than one party. The patent at issue in *Centillion* disclosed a system for collecting, processing, and delivering information from a service provider, such as a telephone company, to a customer. The claim involved both a “back-end” system maintained by the service provider and a “front-end” system maintained by an end user, e.g. a customer. The Federal Circuit held that “to ‘use’ a system for the purposes of infringement, a party must put the invention into service, i.e. control the system as a whole and obtain benefit from it.” If the Federal Circuit found that the District Court had erred “by holding that in order to ‘use’ a system under §271(a), a party must exercise physical or direct control over each individual element of the system.”

Applying these principles, the Federal Circuit held that the customer “used” the system under §271(a). Specifically, the Federal Circuit found that the user who initiated demand for the service caused the service provider’s back-end system to generate the requisite reports as a result. The Federal Circuit explained that this was “use” because “but for the customer’s actions, the entire system would never have been put into service”. However, the Federal Circuit found that the service provider did not “use” the system because it never put into service “the personal computer data processing means”, which required the action of the customer. The Court also found that “[s]upplying the software for the customer to use is not the same as using the system”.

The Federal Circuit also noted that the only way the service provider could have been found to have “used” the system claims was if it was vicariously liable for the actions of its customers. The Court explained, however, because it was entirely the decision of the customer to install and operate the software, the service provider could not be found vicariously liable for its customers’ actions.

Citing *Centillion*, two District Courts have found there can be no claim for direct infringement where the asserted patents claim systems that are operated by more than one party. For example, in *CIVIX-DDI, LLC v Hotels.com, LP*, 809 F. Supp. 2d 882, (N.D. Ill. 2011), the plaintiff accused Hotels.com’s location-based services for hotels, condos, bed and breakfasts of patent infringement. It was undisputed that the asserted claims required both front-end and back-end components.

Hotels.com argued that it could not infringe the “front-end” claim limitation requiring “a port for remotely accessing the portion of information via the link, the port generating the request signal in response to inputs by the user”, because only its customers’ personal computers constitute “ports.” Specifically, citing *Centillion*, Hotels.com argued that it could not “use” the accused system because the Hotels.com system only operates after a user loads her “port,” connects to the internet, loads the Hotels.com website and performs a search.

The Court agreed and granted the defendant’s motion for judgment as a matter of law of no direct infringement. The Court found that, like the service provider in *Centillion*, Hotels.com did not “use” the entire claimed system because it never put into the service the “port.”

In *Joao Control & Monitoring Sys. of Cal., LLC v Sling Media, Inc.*, 2012 U.S. Dist. LEXIS 110907 (N.D. Cal. Aug. 7, 2012), the plaintiff sued a number of defendants for patent infringement alleging direct infringement on the basis of vicarious liability through the conduct of its customers.

The asserted system claims required personal computing devices. Citing *Centillion*, the defendant, Sling Media, filed a motion to dismiss the infringement claims to the extent they were based on vicarious liability. The defendant argued that, like the service provider in *Centillion*, it could not be held vicariously responsible for infringing patents based on a third party’s use of their own computer because it did not direct or control its customers. The Court agreed, and dismissed any infringement claims based on vicarious liability.
Notably, the Court warned that such a result could be avoided by careful claim drafting. Specifically, the Court noted that “any concerns over a party avoiding infringement by arms-length cooperation can usually be proper claim drafting”, explaining that “a patentee can usually structure a claim to capture infringement by a single party”.13

In contrast, the District Court in *Soverain Software LLC v J.C. Penney Corp.*, 2012 US Dist. LEXIS 151102, 11-15 (E.D. Tex., Aug. 9, 2012) distinguished *Centillion* because the asserted system claims were drafted to capture infringement by a single party, and denied the defendants’ motion for judgment as a matter of law for no direct infringement. In *Soverain*, the plaintiff sued a number of defendants for patent infringement of a patent generally related to performing electronic commerce transactions over the internet. The asserted claims related to the use of shopping cart features and online statements. As in *Centillion*, the system claims included both a back-end component (server-side) maintained by the service provider and a front-end component (client-side) maintained by an end user. Citing the *Centillion* decision, the defendants contended that because there were front-end components, they were entitled to judgment as a matter of law for non-infringement. The Court disagreed. Specifically, unlike the service provider in *Centillion*, the Court found that the defendants did not require their customers to download and install software for their computers to interact with the shopping cart feature as required by the claims.14 Instead, the Court found that delivery of the defendants’ web page itself provided the programming that was required by the claims.15 Therefore, unlike the asserted claims in *Centillion*, the system claims in *Soverain* were drafted such that a single party could “use” every limitation of the claim.

In light of the *Centillion* decision and its District Court progeny, defendants in a patent infringement case should carefully evaluate whether divided infringement can be used as an additional ground for non-infringement against system claims.

**With Data Breaches on the Rise, What is Your IP Incident Response Plan?**

Managing intellectual property in a global economy is already a difficult proposition. The ease of copying and transmitting proprietary information across international borders makes the unauthorised dissemination of IP especially difficult to contain after it leaves the owner’s control. Just as businesses have implemented data breach incident response plans, an IP incident response plan can help preserve legal rights and protect IP from being swept away in the rising tide of data breaches.

Data breaches are stressful and chaotic events. Having an incident response plan prepared and ready to guide your organisation’s actions in the wake of a data breach is crucial to effective containment, mitigation, and regulatory compliance. While many organisations maintain incident response plans designed to meet regulatory and contractual requirements, few consider the IP implications of data breaches. A data breach can be every bit as damaging in the loss of IP rights as it is in regulatory enforcement and compliance costs. Organisations that rely on IP assets should integrate IP into their incident response plans to mitigate the IP risks of data breaches.

**Incident Response Plans**

Incident response plans identify key responders, communications protocols, regulatory compliance and contractual deadlines, and a high-level action plan for responding to data breaches. While much of the effort in drafting incident response plans is focused on the relatively mundane gathering and consolidation of information such as contact details and regulatory requirements, the importance of having this information readily available when a breach occurs should not be underestimated. Every moment spent digging up off-hours contact information for the IT security expert is a moment that critical evidence can be overwritten, altered, or deleted.

The first step in preparing an IP incident response plan is assessing your IP risks. Depending on what combination of trade secrets, patents, copyright works and trade marks your organisation relies on, your response to a data breach will vary considerably. For example, the disclosure of a trade secret requires a different response to a leaked copy of a highly anticipated book or movie. By assessing your organisation’s IP risks, limited resources can be focused on responding effectively to the most impactful and likely scenarios.

The next step in developing an IP incident response plan is building a mechanism to determine what data has been affected by a breach. This is often done through assessing and classifying data according to its type or sensitivity, such as...
healthcare data, financial data, or competitively sensitive information. By classifying data, regulatory and contractual requirements regarding breached data can be quickly identified and response plans executed.

For example, R&D data could potentially be a trade secret, patentable subject matter, or both. Inventors and technology experts should be identified for proprietary products, technologies and business processes. These technical resources should be involved in assessing the potential impact of data breaches because they can explain compromised technologies to decision-makers and understand what is generally known as compared to the breached proprietary information. Classification facilitates quickly and efficiently determining the most appropriate response for each category of data.

Another important function of an incident response plan is establishing who and when certain groups and individuals should be involved in the breach response process. Consolidating distribution lists, calling trees, and off-hours contact information in one place enables a coordinated response and avoids over-inclusion of non-essential personnel that can be distracting and counterproductive to the incident response. By following a pre-determined action plan with clearly designated spheres of authority, decisions can be made quickly and implemented efficiently without over-saturating and slowing the process with excessive input and feedback.

An IP incident response plan should also include key inside and outside counsel who understand the organisation’s core technologies and business processes and can quickly marshal resources to evaluate the implications of a data breach on IP rights. Establishing working relationships with counsel in major overseas markets can also help in case expedited international actions become necessary.

IP Considerations

Trade secrets are often the focus of data breach discussions. Unlike patents, copyright works and trade marks, which derive their protection through disclosure or use, trade secrets only retain legal safeguards so long as they remain secret. The ease of posting information anonymously on the internet so that it becomes widely-accessible makes trade secrets especially vulnerable to data breaches. Some mitigation options may be available, such as takedown requests against disseminators or hosting sites, but where the internet is concerned the general rule is that once the secret is out the damage is irreparable.

There are several tools available to trade secret owners that may help mitigate the harm of a trade secret affected by a data breach. First, trade secret law in many jurisdictions, including the United States and China, provides for injunctive relief. This is often the best option if it is feasible. A major limitation to this approach is the need to identify the perpetrator of the data breach in order to obtain an injunction, which can be difficult when foreign hackers are involved. The benefits of injunctive relief as a remedy are also limited by time. If a misappropriator widely disseminates a trade secret before they can be identified and an injunction secured, the practical benefits of an injunctive relief can be marginal.

Secondly, the US International Trade Commission (ITC) has the authority to bar the importation of goods resulting from unfair trade practices, including misappropriated trade secrets. The ITC’s authority extends to conduct occurring in foreign countries such as misappropriated manufacturing methods and processes. If a general exclusion order is obtained, the exclusion remedy can extend to any importer misappropriating the trade secret through one proceeding.

Thirdly, trade secret owners can apply for patent protection. This option abandons the benefits of trade secret protection entirely, an extreme course of action, because patented inventions are publicly disclosed. If the trade secret owner already planned to patent the trade secret or if widespread disclosure is certain, patent rights may recoup some of the value lost by the disclosure of the trade secret.

However, the ability to secure patent rights may also be impacted by data breaches. As of 16 March 2013, the America Invents Act (AIA) has transitioned the United States from a first-to-invent system to a first-inventor-to-file patent system. This change makes the filing of a patent application, not the actual invention, the critical date in determining ownership priority. This could result in patent rights being awarded to someone who developed an invention second but won the race to the patent office – or to someone who acquired information about the invention through improper means. The AIA offers some protection for misappropriated inventions in the form of derivation proceedings, but these protections may...
not always help the inventor when evidence of misappropriation is unavailable.

Even if a misappropriator does not file for patent protection themselves, disclosure of the patentable subject matter by the misappropriator may constitute prior art that bars an inventor from obtaining patent rights. Under the AIA, the scope of prior art includes offers for sale and public uses, existing anywhere in the world prior to the filing date of the patent, other than some disclosures by the inventor within a year preceding the filing date. As part of its IP incident response plan, organisations should consider whether to file a provisional application or to take other action that might preserve patent rights or prevent others from obtaining patents on breached proprietary information.

Copyright and trade mark rights are less susceptible to data breach harms from loss of confidentiality, but a data breach could result in the disclosure of trade secrets related to copyright and trade mark rights, such as exposure of pre-launch brand or marketing plans, unreleased books or movies, unprotected media master files that enable others to make top quality reproductions, or other data that implicate copyright or trade mark law. If your organisation relies on managing the public availability of content, brands or media, an IP incident response plan can be invaluable in coordinating legal, business and PR responses in the wake of a data breach involving unreleased material.

Where copyright extends to database rights, such as in the EU, a data breach could expose otherwise internal databases that are protected. Infringement actions, including injunctions and monetary damages, may be available for misappropriation of protected databases against both the breach perpetrator and subsequent misappropriators of the database. In preparing an IP incident response plan, the local law should be taken into consideration where database rights apply.

An IP incident response plan should understand the IP protections that your organisation relies on, the risks that your organisation faces, and set forth response plans for each. A coordinated response may prove the difference between identifying a misappropriator and obtaining an injunction and the trade secret ending up posted on the internet for all to see.

Not all organisations will respond to data breaches that may compromise intellectual property the same way. Different organisations calculate risk and risk tolerance differently and may reasonably come to opposite conclusions on how best to respond to an IP data breach. However, all organisations should evaluate the potential implications of a data breach on their IP rights and business needs, and integrate appropriate measures into incident response plans before the incident response plan is needed.

1 ibid. at 1283.
2 ibid. at 1281.
3 ibid. at 1284.
4 ibid.
5 ibid. at 1286.
6 ibid.
7 ibid.
8 id. at 890.
9 id. at 888.
10 ibid.
11 ibid. at 892.
13 id. at 29.
14 id. at 11.
15 id. at 15.
16 ibid.
17 See, for example, Evans Cooling Systems v. General Motors Corp., 125 F.3d 1448, 1453-54 (Fed. Cir. 1997) (holding there is no exception to the on-sale bar for sales deriving from misappropriated trade secrets).
**VICTORIA**

Robynne Sanders  
DLA Piper  
Victorian Committee

On 15 May, Clive Elliott gave his annual New Zealand law update. This has become a fixture in the IPSANZ calendar.

On 17 July, Dr Warrick Rothnie presented the annual copyright law update, touching also on some recent design cases. The session was excellent, with Dr Rothnie revealing to those present the hidden value of the many unusual copyright cases this year.

Coming up on 5 August, Professor Andrew Christie will present on Domain Name Disputes under the auDRP and UDRP: Tips and Tricks for Running a Case. We will shortly be announcing the dates for the annual Trade Mark Update and annual Patents Update.

**NEW SOUTH WALES**

Shelley Einfeld  
AJ Park  
New South Wales Committee

The NSW local branch of IPSANZ has continued with its packed 2013 program of events.

In May, we welcomed former IPSANZ President (and now QC) Clive Elliott who presented his annual round up of New Zealand IP developments. In June, Professor Andrew Christie from the University of Melbourne Law School gave a very interesting and practical talk about tips and tricks associated with running domain name disputes under the UDRP and auDRP.

August has featured two lunchtime sessions; the first being a presentation by The Honourable Justice Rares of the Federal Court on “hot-tubbing” of expert witnesses in patent litigation, and the second, being a talk on global branding by Corrs Partner (and IPSANZ regular), Odette Gourley.

Plans are also well under way for our annual comprehensive trade mark and patent updates featuring barristers Ed Heerey and Andrew Fox respectively, as well as for our end-of-year cocktail party scheduled for Wednesday 11 December – please save the date.

As always, the IPSANZ NSW Committee welcomes feedback from our members and suggestions for speakers and topics you would like to hear in future.

**QUEENSLAND**

Nicole Murdoch  
Bennett and Philip Lawyers  
Queensland Committee

On 13 May, Clive Elliott QC presented his yearly update on Key New Zealand developments in IP law at Corrs Chambers Westgrath. The event was well-attended and the Committee is always thankful to Mr Elliott for taking time to present to Queensland members and to Corrs Chambers Westgrath for hosting the event.

On 13 September, Ben Fitzpatrick will be holding his long-awaited Patent Update as a lunch-time seminar. The event will be hosted by Minter Ellison. The Committee wishes to thank both Mr Fitzpatrick and Minter Ellison for their continued assistance.

The Committee is currently planning its annual Judges’ dinner, which is planned to be held in October or early November.

**SOUTH AUSTRALIA**

Josh Simons  
Minter Ellison  
South Australian Committee

On 16 May, Clive Elliott QC presented his New Zealand Update, which was very well-received. The members appreciate his regular dedication to storming the troops across to Australia to keep the IP relationship alive between New Zealand and Australia.

On 11 July, Dr Warwick Rothnie presented on his annual presentation “Copyright and Designs Update 2013”. The meeting was very well-attended. The next meeting is scheduled for 5 September, when the Honourable Neil Brown QC will present on “Domain Names: The Arbitration of Disputes”.
WESTERN AUSTRALIA

Madeleen Rousseau
Herbert Smith Freehills
Western Australia Committee

On 17 May, Clive Elliott QC presented his New Zealand IP Update at the offices of Wrays. The event was well-attended and the members of the WA Committee extend their thanks to Clive for making the time to travel to Perth to deliver his presentation.

Gary Cox presented on Contentious Issues in Patent Law on 11 July to a full house. Gary shared from his experience in patent litigation matters and also discussed recent cases and changes to the Patents Act. Many thanks to Gary for his well-prepared presentation and to Wrays for hosting this event.

We were very pleased to welcome back Ed Heerey for his 2013 Trade Marks Update which he presented on 1 August. Ed’s presentation included a recap of the recent changes to the Trade Marks Act followed by a valuable review of recent court judgments and IP Australia decisions. The event was very well-attended and the members of IPSANZ in WA wish to thank Ed for making the journey to Perth to present.

NEW ZEALAND

Sarah Chapman
Simpson Grierson
New Zealand Committee

In June, we heard from Gavin Ellis (an independent media consultant and researcher, lecturer in the Department of Political Studies at the University of Auckland, and a former Editor-in-chief of the New Zealand Herald), as well as Sam Elworthy (former Editor-in-Chief at Princeton University Press and now director of Auckland University Press) about the Challenges for Copyright Content Providers in a Digital World. The seminar explored the challenges publishers and the media face and the role that copyright plays in their new business models.

In August, Scott Yorke, (Partner, Bowie Yorke) spoke to us about Intellectual Property Licensing – Drafting Better Documents. He examined intellectual property licensing issues, and the practicalities of IP licence drafting. The seminar included an analysis of some of the most common mistakes people make when drafting licences.

We also have plans underway for a special event in Wellington in September. Following his attendance at the IPSANZ conference in Noosa, Michael Fysh QC SC (Former judge of the Patents County Court and Chairman of the UK Copyright Tribunal) will present a special seminar in Wellington on Friday, 27 September. We are delighted to have the opportunity to hear from Michael so make sure you save the date and get along to this event!
**27th IPSANZ Annual Conference**  
20–22 September 2013  
This year’s programme brings you the highest calibre speakers with sessions covering key issues whilst enjoying a rewarding weekend at Sheraton Noosa Resort & Spa, Noosa Heads, Queensland, situated on the renowned Hastings Street ‘Strip’.

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## CONFERENCE PROGRAMME

### Friday, 20 September 2013

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
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<tbody>
<tr>
<td>3.30 - 6.30pm</td>
<td><strong>Early Registration</strong></td>
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| 4.00 - 5.00pm | **ACCC Update Session**  
The ACCC in Defence of Food: Fowl Play  
**Speaker:**  
Paul Zwa General Manager, Enforcement Operations Victoria, ACCC |
| 12.30 - 1.30pm| **Lunch**                                                                                 |
| 1.30 - 3.00pm | **Session 3**  
Copyright Law Reform: How Will Copyright Respond to the Demands of the Digital Age?  
**Speakers:**  
Dr Emily Hudson Career Development Fellow in Intellectual Property Law, The University of Oxford, United Kingdom  
Dr Warwick A Rothnie Barrister, Victorian Bar  
**Chairperson:**  
Susan McMaster Senior Legal Counsel, CSIRO, Melbourne |

### Saturday, 21 September 2013

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
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<tbody>
<tr>
<td>8.30 - 9.00am</td>
<td><strong>Registration and arrival tea and coffee</strong></td>
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| 9.00 - 10.30am| **Session 1**  
Is the World Shrinking: UK, US and European Perspectives on Patentability  
**Speakers:**  
Randall R Rader Chief Judge, United States Court of Appeals for the Federal Circuit, U.S.A.  
Michael Fysh QC SC Former judge of the Patents County Court and Chairman of the UK Copyright Tribunal  
**Chairperson:**  
Robynne Sanders Partner, DLA Piper Australia, Melbourne |
| 10.30 - 11.00am| **Morning Tea**                                                                          |
| 11.00 - 12.30pm| **Session 2**  
Bad Faith – A Matter of Proof  
**Speakers:**  
Clive Elliott QC Barrister, New Zealand Bar |
| 3.00 - 3.30pm | **Afternoon tea**                                                                         |
| 3.30 - 5.00pm | **Session 4**  
Indirect Patent Infringement Through the Supply of Products: A Perspective from Australia and New Zealand  
**Speakers:**  
Adrian Ryan SC Barrister, Victorian Bar  
Andrew Brown QC Barrister, New Zealand Bar  
**Chairperson:**  
Clare Cunliffe Bar Reader, Victorian Bar |

### Sunday, 22 September 2013

<table>
<thead>
<tr>
<th>Time</th>
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<tr>
<td>7.00pm</td>
<td><strong>President's Dinner</strong></td>
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<td><strong>After dinner speaker</strong></td>
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<td><strong>Annabel Crabb</strong> One of Australia’s most popular political commentators, well known to many as a popular and respected entertainer and media figure.</td>
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<tr>
<td>9.00 - 9.30am</td>
<td><strong>Arrival tea and coffee</strong></td>
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| 9.30 - 10.30am| **Session 5**  
Judge’s Session  
(Note start time of 9.30am)  
Remedies in Intellectual Property Litigation  
**Guest Speaker:**  
The Honourable Chief Justice James Allsop Federal Court of Australia  
**Chairperson:**  
Mark Goldblatt Barrister, Victorian Bar |
| 10.30 - 11.00am| **Morning Tea**                                                                          |
| 11.00 - 12.30pm| **Session 6**  
Current IP Issues in Social Media and the Internet  
**Speakers:**  
Vanessa Mellis Special Counsel, Corrs Chambers Westgarth, Brisbane  
Mark Vincent Partner, Shelston IP, Sydney and Auckland  
**Chairperson:**  
Anastasia Nicholas Barrister, Queensland Bar |
| 12.30 - 2.00pm| **Lunch and close**                                                                       |