INTELLECTUAL PROPERTY FORUM

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## Current Developments

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In conducting its inquiry, the ALRC was asked to review the adequacy and appropriateness of current copyright exceptions and statutory licences, with particular reference to the digital environment. The inquiry received more than 870 submissions, as it examined a wide range of topics from online use of the internet for social, private or domestic purposes; caching and indexing; transformative use such as mash-ups or sampling in music; cloud computing; and retransmission of free-to-air broadcasts. The inquiry also considered issues as they affect libraries and cultural institutions such as preservation and digitisation, and contracting out of copyright exceptions.

The ALRC made 30 recommendations which seek to achieve the objectives of respecting authorship and maintaining incentives for creating copyright material, and at the same time, enabling fair access to copyright material through the devising and implementation of rules that are flexible, clear, technologically neutral and compliant with international obligations.

The Key Recommendations

Arguably, the most far-reaching recommendations include:

- The introduction of a flexible fair use exemption as a defence to copyright infringement.
- Retaining and reforming some existing specific exemptions (including the exceptions that apply to parliamentary libraries), and introducing certain new specific exemptions.
- Clarifying the statutory licensing scheme.
- Amending the broadcasting exemptions.
- Amending the Copyright Act 1968 (Cth) to limit contracting out of copyright exceptions.

The Fair Use Exception

The keystone of the Report is the recommendation of a “fair use” exception. This is intended to replace several of the present defences to copyright infringement, including the exceptions for “fair dealing”, “time shifting”, “format shifting” and libraries and archives. If introduced in Australia, fair use would build on existing Australian laws that allow fair dealing of copyright material for purposes such as research, study and reporting the news.

Put at its simplest, fair use is a defence to copyright infringement that basically asks whether any particular use of a copyright work is “fair”. In deciding whether a particular use of copyright material is fair, a number of principles, known as “fairness factors” are taken into account. Chapter 5 of the Report sets out in some detail how these fairness factors would operate.

The ALRC unequivocally argues that Australia should include a fair use defence in the Copyright Act, similar to that available in the United States, which allows people to argue a fairness defence when accused of copyright infringement.

In support of the doctrine of fair use, the Report makes the point that the use of the doctrine in the US has not seemed to have inhibited, or largely impacted on, the creation of films, music, books and other material in the world’s largest exporter of cultural goods, the United States.

The ALRC recommends a fair use exception with a non-exhaustive list of four fairness factors to be considered in assessing whether use of another’s copyright material is fair and a non-exhaustive list of eleven illustrative purposes. The exception is subject to the application of non-exhaustive “fairness factors”, including:

- The purpose and character of the use.
- The nature of the copyright material.
- The amount and substantiality of the part used.
- The effect of the use on the potential market for, or value of, the copyright material.

These fairness factors are similar to the factors considered in relation to the current fair dealing exception for “research or study” and the US Copyright Act “fair use” factors.
The ALRC recommends that the exception contain a non-exhaustive list of “illustrative purposes” that may qualify as fair use, namely:

(i) Research or study.
(ii) Criticism or review.
(iii) Parody or satire.
(iv) Reporting news.
(v) Professional advice.
(vi) Quotation.
(vii) Non-commercial private use.
(viii) Incidental or technical use.
(ix) Library or archive use.
(x) Education.
(xi) Access for people with a disability.4

The ALRC views this proposed exception as being in the public interest, as it is flexible and able to change with new technologies and understandings of what is “fair use”. It considers that the exception is able to offer protection to rights holders while retaining sufficient certainty and predictability to encourage creation and innovation.

The non-commercial private use and technical use clauses would in particular target uses of copyright in the technology sector, such as for caching of data, cloud computing, or the digital recording or transfer of content from one medium to another. Google and Yahoo7 are both quoted in the report stating that they would not be able to offer the services they can if they had started in Australia under the existing copyright law.

The Report also recommends some specific exceptions, such as for libraries and archives to make preservation copies, for judicial proceedings and royal commissions, and for public access to certain documents lodged with government.

Alternative New Fair Dealing Exception

If the doctrine of fair use is enacted, the Report recommends that many of the existing specific exceptions will need to be repealed as the fair use exception, or the new fair dealing exception recommended in Chapter 6, should be applied when determining whether relevant uses infringe copyright. In short, the ALRC recommends the repeal of the existing fair dealing exceptions.5

The exception would contain an express statement that fair use is not copyright infringement, and a non-exhaustive list of fairness factors, such as what the purpose of the use was, the nature of the material, the amount of the material used, and the effect on the value of the material.

However, if the fair use exception above is not enacted, the ALRC recommends the introduction of an “alternative” new fair dealing exception. This alternative seeks to extend the range of “purposes” covered by the current fair dealing exceptions.

Specifically, the “illustrative purposes” listed at paragraphs (vi) to (xi) above would constitute additional categories of fair dealing.

However, the “fairness factors” set out above should still be considered in determining whether the dealing is “fair” along with any other relevant matter.

Summary of Other Recommendations

The ALRC made various other recommendations. These include:

• Maintaining the statutory licences for government and educational institutions but making them less prescriptive by:
  • removing detailed provisions on the setting of equitable remuneration, record keeping and sampling.
  • allowing governments to negotiate directly with rights holders on equitable remuneration.
• Clarifying that statutory licences for government and educational institutions do not apply where:
  • other unremunerated exceptions to infringement (including fair use or the new fair dealing exceptions) apply
  • an alternative licence applies, whether obtained directly from rights holders or a collecting society.
• Introducing specific exceptions for use of copyright material for the proceedings of a tribunal, royal commission or statutory inquiry or for reporting those proceedings or where statutes require governments to provide public access to copyright material.
• Limiting remedies available for use of “orphan works” where the owner cannot be found from a reasonably diligent search and as far as possible the author has been clearly attributed.
• Clarifying that any term of an agreement that restricts uses otherwise covered by specific library and archives exceptions is unenforceable.
Editorial – Reforming Australian Copyright Law in the Age of the Digital Economy

Key Opinions Expressed on the Report

In tabling the Report, the Attorney-General, Senator George Brandis stated:

I am pleased to table the final report of the Australian Law Reform Commission’s inquiry into Copyright and the Digital Economy. The ALRC inquiry was the most significant review of the Copyright Act since the Act came into operation in 1968 and has attracted strong interest with the inquiry receiving over 850 submissions.6

The Commissioner in charge of the Inquiry, Professor Jill McKeough stated:

Fair use is a flexible exception that can be applied to new technologies and services, which is crucial in the digital economy.

Fair use can facilitate the public interest in accessing material, encourage new productive uses, and stimulate competition and innovation. But fair use also protects the interests of writers, musicians, film-makers, publishers and other rights holders. It was very important that in an inquiry about exceptions to copyright, we not lose sight of the purpose of copyright law.7

While, ALRC President, Professor Rosalind Croucher has expressed the view that:

The 30 recommendations in this report are designed to allow for a more principles-based and less prescriptive approach to copyright law. In a highly contested field, we have suggested reforms that will protect creators and their markets, provide appropriate access to material, simplify and modernise the law, and create a better environment for innovation and economic development.8

Conclusion and the Future

In short, the ALRC recommends that Australian copyright law should have a flexible and technology-neutral fair use provision to prevent technology companies and like entities from being liable for copyright infringement.

These recommendations are undoubtedly controversial; in particular, the fair use recommendation is a contentious doctrine. As the ALRC report notes, the introduction of fair use to Australia is supported by the internet industry, telecommunications companies, the education sector, cultural institutions and many others.

However, it is widely opposed by rights holders. Those opposing fair use contend, inter alia, that there no evidence exists that it would encourage or assist innovation and that an open-ended fair use exception would result in the balance between the interests of copyright owners and users being tipped too heavily in favour of users.

The Government is yet to respond to the recommendations made in the report, but the Attorney-General has stated in parliament that a fair use exception is “a controversial proposal”. He has further indicated that the Government would side with content owners in seeking not to diminish their rights, but will be particularly concerned to ensure that in its consideration of the Report no prejudice is caused to the interests of rights holders and creators.

Furthermore, in a speech to the Australian Digital Alliance, the day after the release of the Report, the Attorney-General acknowledged the need for copyright law reform, noting also that a strong case has been made that the Copyright Act is unnecessarily restrictive in potentially prohibiting some beneficial uses of copyright material. Perhaps more significantly, Senator Brandis also stated that he remains to be persuaded that fair use is the best direction for Australian law.9

It will be fascinating to monitor the next development in this vexed copyright area, and how the changes (if any) impact and shape future Australian copyright law.

This Issue

This issue traverses a wide range of current intellectual property law issues in the fields of copyright, patent and trade mark law, and even human embryonic stem cell research regulation.

In the first article, Dr Szu-Yuan Wang attempts to construct a working analytical framework for the concept of intellectual property through an examination of three aspects of the IP concept – being its terminology and definition, shared characteristics, and justifications. The author argues that, historically, the term has been used in different senses in different contexts, and that, beyond terminological and definitional diversities, even to this day commentators disagree on the function of, and rationales behind, the institution.

In keeping with the theme of the Editorial, Patrick Fair and Edwina Tidmarsh provide a timely analysis
of some of the key recommendations of the ALRC’s Final Report, “Copyright and the Digital Economy”, which recommends that the Copyright Act 1968 (Cth) be substantially amended. In particular, their focus is on the main recommendation that the fair dealing exceptions, and other specific exceptions to copyright, be replaced by a general exception of “fair use”. Usefully, the authors also provide an overview of the US law in relation to fair use and “transformation”.

From copyright to trade mark law, in the next article Clive Elliot QC explores the concept bad faith in trade mark law, and surveys a number of decisions in the Intellectual Property Office and courts in New Zealand, including at an appellate level, that deal with bad faith. The author concludes that, from his review of the recent case law, while bad faith offers owners a flexible and effective remedy against opportunistic or otherwise questionable conduct by competitors, there are certain limitations on what can be achieved. He further argues that, although the remedy is an effective one, because of the serious nature of the allegations, in certain situations akin to a claim of fraud, explicit pleadings and cogent evidence is required to support the ground.

Next, in the area of patent law, Adrian Ryan SC focuses on the topic of indirect infringement in Australia through the supply of products, with an emphasis on section 117 of the Patents Act 1990 (Cth). The author also surveys some of the more significant recent cases in Australia that have had to adjudicate on ss.117(1) and 117(2) claims.

We then return to copyright law where Edgar Lazeanu explores the oft-overlooked policy goals of maintaining parallel importation restrictions in the market for books. The author sets out outlines some of the basic concepts and reasoning behind why he considers the removal of parallel importation restrictions under the Copyright Act 1968 (Cth) with respect to “atom and molecule” books, as a matter of policy, would be beneficial to Australian authors and the publishing industry. He further considers the effects that technology has had, and will continue to have, on products embodying copyright works, showing the inadequacies of parallel importation restrictions in preserving discrete markets based on geographical territories.

In the final article, Li Jiang and Dr Wei Shi explore the challenges to harmonising human embryonic stem cell research by drawing on four primary aspects from regulatory harmonisation attempts: the establishment of the Biotechnology Directive; allowing different moral definitions and various legal statuses for human embryos in the EU; providing a uniform concept for human embryos and total ban on patents involving destruction of human embryos in the EU; and infusing moral control with patent laws.

This issue’s Profile celebrates the distinguished judicial and barristerial career of former High Court Justice, The Honourable Ian Callinan AC. In this wide-ranging conversation, Scott Kiel-Chisholm canvasses with his subject aspects of his period when sitting on the High Court, his reflections on the workings of the High Court, the IP cases on which he ruled, improvements to current IP law and practice, and the impact on counsel who appear before the High Court.

I extend a warm welcome to Peter Heerey AM, QC, who has agreed to join the longstanding correspondents, Tom Cordiner and Alan Nash, as a co-correspondent for the South Australia, Victoria and Western Australia report in the Current Developments section of the journal. Undoubtedly, in this role Peter will bring to the journal the wealth of knowledge of intellectual property law.

Finally, but not least, 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.

2 ibid., Chapter 5, pp.127-160.
3 ibid., pp.125-140.
4 ibid., pp.150-151.
5 ibid., p.124.
Recognition of Service

On behalf of the Trans-Tasman National Committee, the IPSANZ Executive would like to recognise and record the Society’s appreciation to Christopher Sexton for his services as Editor of the Society’s Journal for the last ten years.

As Editor, Christopher has been responsible for the publication of 40 issues of the Intellectual Property Forum, with Issue 57, circulated in June 2004, being his first publication.

We also wish to note however, that Christopher was closely involved with the Journal before his time as Editor, having interviewed many of the intellectual property luminaries whose profiles have been published within the Journal.

Christopher’s on-going commitment and tireless efforts to maintain and enhance the high standard of the Journal (which continues to be widely circulated in Australia, New Zealand and internationally) have ensured its reputation as a highly regarded, scholarly legal publication.
Although a native of Casino, New South Wales, Mr Callinan is regarded as a Queenslander. Indeed, he grew up in Brisbane, finished high school at Brisbane Grammar and graduated in law at The University of Queensland. Appointed in 1978 as a Queen’s Counsel, Mr Callinan enjoyed this period of his legal career and we discussed an aspect of the Christopher Skase case, which reinforced my belief that Mr Callinan is an incredibly skilful advocate.

On 14 September 1998, ABC Four Corners broadcasted the views of some prominent Australians on the appointment of Mr Callinan to the High Court. In assessing the type of person Mr Callinan is, Tony Morris QC said: “Ian Callinan isn’t a coward”, while former Commonwealth Attorney-General, Michael Lavarch, said: “He was regarded as an absolutely outstanding criminal lawyer within the Queensland legal profession, I mean really a top-notch advocate”.

I wanted to know how he felt about his time on the High Court, what his thoughts are on the operation of the High Court, the IP cases he decided, the real life issues that he feels impact on counsel who are appearing before the High Court and the people he regarded as role models. During our conversation, Mr Callinan laughed often and when he did his eyes lit up, revealing his passion for life.

He is an incredibly genuine Australian who loved his time as a barrister, enjoyed his role on the High Court, enjoys his current job as mediator, loves writing novels, has a great desire for continual improvement in the quality of legal education and legal advocacy and sees a need for change in IP law.

When I asked: “So, what might the future hold for you?”, he laughed and said: “Well, at my age I don’t have a long horizon time”. I said: “Just enjoy the journey?”, to which Mr Callinan responded: “Exactly”.

Q: You retired from the High Court of Australia in August 2007, but you have certainly not retired from the legal profession. Did you find the transition from judge back to barrister difficult?

A: I have not returned to the Bar. What I have done are mediations and arbitrations and some reviews of government departments or other departments. I found the transition easy; I personally didn’t have any difficulties. I know some people who have been judges have found the transition hard and I’ve said to them, only half-jokingly, that what they’re missing is the deference. (laughs)

Q: What I have heard is that you have been extremely busy!

A: I have been quite busy. Look, I don’t want in any way to say that I wasn’t very, very grateful for being a judge for 10 wonderful years. They were intellectually stimulating.
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years, but my time at the Bar before that
would be my preferred time really.

Q: So you find that the skills that you
developed at the Bar are very valuable in the
role you are playing now?

A: Yes, and my judicial time was important
too because being a judge teaches you to be
patient and to listen, and those are two very
important qualities you need to have if you
are going to do mediation.

Q: On 24 January 2014, you were appointed
as a Judge ad hoc of the International Court
of Justice for the proceeding Timore-Leste
v Australia. How does that incredible
opportunity differ from your experience on
the High Court?

A: That is an entirely different experience from
the practice of the common law method.
Common law jurisdictions approach matters
different from the way in which public
international lawyers approach matters.
Public international law has been heavily
influenced by civil law, European law, and
requires an adaptation for a person trained
in the common law method to deal with
civil law concepts and public international
law concepts which are heavily influenced
by the former.

Q: What were the main changes that you
needed to make?

A: I am not suggesting that the common law
technique is a flawless system, but it does
have a great deal of method in it, in the
sense that there is a very clear initial fact-
finding process. It is an adversarial process,
so the fact-finding process is divided very
strictly from the finding of and application
of the law. Neither public international law
nor civil law as practised is structured in
those ways.

Q: Does the doctrine of precedent from the
common law system play any role in that
process?

A: Well, public international lawyers, civil
lawyers, do not proceed that way. If
precedent suits them, they will apply that
precedent, but, as you know, they are
not bound to precedent. When you take
precedent out of the system there is less
structure. They would say, and in some
respects they are probably right, that they
are better able to do justice, but the great
risk is the introduction of more subjectivity
once you don't have a very structured
approach. They do not fully understand our
hierarchal court system, a final appellate
court laying down the law, it is a much
more fluid thing. No doubt there are some
advantages with their system but I do not
have expertise in the civil system.

Before I sat on the International Court of
Justice I did have one direct encounter with
civil law. I went to Spain for an extradition
hearing and a court of three judges decided
that matter. They were Spanish judges
from Majorca. That was an interesting
experience. The proceedings on behalf of
the Australian government, that was seeking
the extradition, were conducted by the Chief
Crown prosecutor of Spain who was a very,
very able, and very nice man. I went over to
assist him and the Australian government.
In the first conference he said: “Have you
brought your robes?”. I said: “Of course
not, why would I bring them?”. He said:
“Because you are going to appear with me
and assist me”. I said: “How can I possibly
do that. I don't know civil law or Spanish
law”. He said: “I will introduce you to the
Court and you will assist me”. I sent for my
robes and I sat with him. The proceedings
were translated, of course, although a
number of the witnesses spoke English
well. That was an interesting experience and
introduction to the civil law.

Q: Was that the Christopher Skase
matter?

A: Yes. Actually, that Court made an order
for his extradition and he then appealed
but neither I, nor the Director of Public
Prosecutions who was instructing me,
participated in the appeal. I don't quite
understand why but it was handled by the
Office of the Attorney-General. I don't
know why we were not involved in the
appeal when it went to the final Spanish
Court because we were so heavily involved
in the first hearing. Fresh evidence was put
in by Mr Skase very late. In any event, the
decision of the lower Court of three Judges
was overturned.

Q: Your incredible contribution to both the law
and the arts has been recognised by your
appointment as a Companion of the Order
of Australia in 2003 and being awarded
a Doctorate of Laws in 2010 by The
University of Queensland. I note that you no longer use the QC after your name, just the AC.

A: There's been a debate about this, whether, once you are appointed to a superior court, your commission as Queen's Counsel merges in that higher appointment. I'm of the view it does. I think all of the other High Court judges I know take the same view.

You might notice that County Court judges and District Court judges keep their QC titles once they are judges and I think the theory of that is that theirs is a kind of statutory appointment which is not quite the same as an appointment to the superior court. Most people who have been on a superior court take the view that your commission as QC is subsumed in some way in your position on the superior court.

Q: How has your commitment to the law and your artistic literary pursuits complemented each other?

A: The important thing is not to get them confused (laughs).

Q: Yes, of course, because you're not writing fiction when you're sitting on the bench?

A: Precisely! Look, there's been some writing on this by an American intellectual, Martha Nussbaum, who takes the view that all judges should read fiction extensively. This was stated in her 1995 book, Poetic Justice: The Literary Imagination and Public Life, where she said it helps them to empathise and I've always been interested in what she says. I don't know if she has anything to say about judges who write fiction but she certainly says judges should read it. (laughs) She has written some very interesting things that are not fiction, and has some good theories of law, ethics and philosophy.

Q: Do you find your skills in the literary field were of assistance in the writing of your judgments?

A: Well, that is really for others to judge, but it seems quite natural, that one will complement the other but there is no reason why, when you're stating the facts in a case, you shouldn't state them in an interesting way. One of the great goals of judicial writing is clarity, making the point, and one would hope that writing other things would serve that purpose.

Q: In a novel you are building the story, stating facts and developing the plot.

A: Two English judges I can think of, lots of judges wrote very well of course, but Lord Denning and Justice Megarry were wonderful writers. Lord Denning, in Miller v Jackson [1977] QB 966, wrote the famous judgment regarding cricket balls being hit over a fence and striking a neighbouring house. Justice Megarry wrote a great judgment about Errol Flynn. It is called Re Flynn (No 1), where he summarises a great deal about Errol Flynn's life and he goes to an autobiography by Errol Flynn and discusses that. It is a brilliantly written judgment and I recommend that people read it.

He sets out a number of things but said the only question I have to decide is in what jurisdiction Errol Flynn was domiciled at the time of his death. He talked about Errol Flynn's life.

Q: Even Australian Crawl wrote a song about Errol Flynn.

A: I didn't know about that but have a look at Justice Megarry's judgment because it is one of the most entertaining and best written judgments I have read. Not that I am suggesting it is the job of judges to entertain; rather to the contrary. Nothing can be more inappropriate than a judge making jokes in a serious matter. It is serious for the parties but there have been some cases where something is said in an amusing way that is not inappropriate but it is a matter of some concern. I remember when I was young barrister, my master, Desmond Sturgess QC who was a wonderful jury advocate, said to me: "If you're appearing in a criminal court for a defendant you never make jokes and you never laugh". He added: "The rest of the court can be laughing but it is a serious matter and you never do that". I think he was right. Jokes in civil cases might be all right without a jury and sometimes with a jury in a defamation case.

Q: Your advice then to new counsel would be that it is ill-advised to crack a joke before the bench?
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A: Exactly! The best piece of advice they can be given is that if a judge cracks a joke don't try to cap it. (laughs)

Q: Will you continue writing novels in your spare time?

A: I just received the proofs for my next novel which is to be published in a month or so. I had one published last year. I had one published the year before that.

Q: And the one that is about to be released?

A: It's called The Only Case. It is my first novel that has an exclusively legal theme. It's about a trial. My publisher has always wanted me to write that sort of book about a trial but I've always resisted it. Any legal themes in any of the other novels have been incidental but in this one the whole focus is on a trial.

Q: I guess your resistance has been again, the danger of mixing a novel with judicial reasoning?

A: Yes, I thought it was really too predictable and rather banal for me to be writing on legal themes. That doesn't mean that legal themes don't come up but certainly they have not been the major theme.

Q: On 24 June 2007, the eve of your retirement from the High Court of Australia, Monica Attard interviewed you on ABC Sunday Profile. During that interview you said that the High Court is "a congenial Court, people all get on with one another. The Court works and it wouldn't work unless there was congeniality on it". Do you maintain contact with those other judges? And, if so, how?

A: Yes, with some of them I do, but sometimes contact is quite fleeting. Last week, for example, I was in Sydney for a farewell of a friend of mine from the Federal Court who I led at the Bar and I went to his farewell ceremony and was sitting next to William Gummow AC. I have maintained more regular contact with Murray Gleeson AC, an old friend of mine, and Dyson Hayden AC. Occasionally I correspond with Michael Kirby AC, CMG and he corresponds with me. I suppose the two friends from the Court would be Murray Gleeson AC and Dyson Haydon AC and we remain friends although we live in different cities. I also stay in contact and sometimes dine with Michael McHugh AC, as I did last month in Perth.

Q: And moving around all over the place throughout Australia and overseas.

A: Yes, but I would not like to overemphasise the companionship on the Court itself because people work very hard, and there is not a big social life connected with the Court. All of us would go back to our own cities to write our judgments. When I was on the Court nobody had a permanent residence in Canberra. I think it is a good thing to come back home.

Q: Yes, you kept your connection with your home?

A: Exactly! We all had chambers in our home city and access to libraries. But the Court hasn't always been collegiate. For example, Justice Starke was absolutely vitriolic with his colleagues. The first High Court (there were only three of them), used to have lunch together every day. You can understand that because they had all been in the Federation movement together, all participated in writing the Constitution to some extent. I am a tremendous admirer of the effort that went into Federation. They knew what one another thought, there weren't a lot of dissents. There were some but very few. The big change came when Justice Isaac Isac came on the Court because the tone of some of his judgments was quite strident and rather florid and that was not the style of the earlier Court. Actually, he had his way with the Engineers' Case with respect to which I have a very strong view which I've expressed in the WorkChoices case.

Q: Where there was disagreement, was that dealt with in a collegiate way as well?

A: Well, we'd agree to disagree. The High Court has really been interesting because right from the beginning the judges took the view that they were entitled to write, and they would write their own individual judgments if they thought it appropriate, but that there would be an attempt to find a consensus. I must say that when I first went to the Court I was anxious to be part of the consensual judgments, joint judgments, but I found it more difficult than I imagined, and in the end I wrote my own judgments most of the time. In fact, I did a rough draft
of a judgment in at least 80 or 90% of the cases on which I sat. That does not mean that I didn’t participate in joint judgments. I often discarded it, but always felt I had to do some writing myself to help reach a conclusion.

Q: Of the 11 High Court intellectual property related decisions you participated in between 2000 and 2007, you were included in joint reasons in six (Nike, Grain Pool of WA, Kimberly-Clark, Firebelts, Polyair and Lockwood), concurring but separate judgments in two (Alphapharm and Parramatta Design), the sole dissenter in one (ABC v Lenah), and concurring dissent but separate judgments in two (Maggbury and Network Ten).

What was the reason for giving the concurring but separate judgments each time?

A: Maggbury I thought was outrageous. The trial Judge was completely right, so I thought. The man who had invented the ironing board, nobody suggested that it did not have some inventiveness about it. He made his application for a patent and then it became public, but the application was still pending.

As for the Network Ten Case, the program was put together from other people’s work. The fact that they were not long segments did not matter. The program in question would never have existed but for the work of others which I said in dissent, so I was obviously wrong. (smiles)

Q: That’s interesting because it seems to depend on what the emphasis should be when the Court applies the law to the facts – whether the judges feel it is more important that the commercial interests of one party prevail over another when enforcing an agreement or whether there are overriding public policy issues.

A: But there shouldn’t be, the language is quite clear! There is a lot of gloss on these statutory cases.

Q: IP rights are all created by legislation. In your dissenting judgment in Network Ten v TCN Channel Nine, you made it clear that it is for the Court to give effect to the language of the Act and not to speculate about the reasons the legislature decided to draft it in the way enacted. What has been your experience of the way in which counsel has dealt with statutory interpretation?

A: Look, I have to tell you that I think is a great misfortune the universities are not teaching and reinforcing the principles of statutory interpretation because so much more now is statute law and a lot of it is ill-drafted. Practically none of it is unambiguous and that means that the rules of statutory interpretation have to be invoked. Frankly, there is not much known about it and it is not as well done as it should be.

I don’t want to sound like an old fulminator, but we would have counsel get up and start talking about a case on common law principles. As Chief Justice Owen Dixon said, common law principles heavily inform the Constitution and statute law but in the end it is the words that count. Counsel would get up and start talking about common law principles. One or more of the members of the Court would ask: “Don’t we have to decide this on the legislation?”. We might get a guarded, “Yes” or “What sections do we go to first?” (laughs) We would have all sorts of hesitation about that sometimes. It didn’t mean they didn’t know or go to the sections, but they started in the wrong place. Unless you start in the right place, you are not going to end up in the right place.

Another problem, I think, is in relation to not only statutory interpretation but also the use of authority. Electronic word searches don’t give the context of the words which is essential. If you are construing the statute you should, first of all, read the statute really quickly, the whole statute, and then you go to the sections, but you go to the sections in question with at least an idea of the thrust of the legislation and how those sections have to fit in with other sections. I think universities should have a full subject on statutory interpretation and it should be a compulsory subject.

Q: That’s interesting because when Michael Kirby was on the High Court, he gave a presentation at the Queensland University of Technology after hearing applications for Special Leave to Appeal here in Brisbane, all of which involved statutory interpretation.
He said it infuriated him that counsel were asking the Court to interpret a word totally out of context from its place in the sentence, the section and the Act in which it appeared.

A: His criticism would be shared by every member of the Court.

Q: As you say, it starts at university where we build those skills and these are carried into the profession.

A: All of the law of the Commonwealth is statutory, literally. The Commonwealth has been increasingly imperialistic, treading into all sorts of areas that are more naturally State areas which means more and more of the law is found in legislation. The States have not been averse to legislating either. I had to do an expert determination and one of the things it turned on was the legislation in relation to carbon and green credits and collectively, the legislation in one State and the Commonwealth, including regulation amounted to more than 1300 pages! Now frankly, that’s absurd! The Income Tax Assessment Act is thousands of pages.

Q: I guess some people would argue that it’s great for lawyers because the general public can’t possibly know their obligations under all the statute law?

A: It is very hard for people. It means that lawyers need to specialise and it is very hard even for the specialist to get on top of all this. We will probably end up like the medical specialists and get narrower and narrower. Lawyers who only do elbows. (laughs)

Q: We’ll see what happens. Would you like to have seen any changes in the way the High Court operates?

A: No, I think the High Court is reasonably efficient with the number of judgments and the number of Special Leave applications. It gets through a great deal of work. Another thing I would like to say about the High Court work is that I think it would be a great pity if the Court ceases to go on circuit. They don’t take very long and it’s a relatively small price to pay. It might cost money for the Court to sit in Brisbane, Adelaide, Perth and Hobart and I think it should occasionally sit in Darwin. Canberra is an artificial construct. There isn’t a High Court bar as such in Canberra. Very few of the litigants come from Canberra. I would have been content to have the High Court in Sydney or Melbourne, it wouldn’t matter much, it would have been more convenient for everybody. In recent years it has tended to travel a little bit less.

Q: Certainly, but with the digital age the High Court late last year began vodcasting its hearings online, so to some degree that contact with the High Court is, in a way, greater than it was?

A: It is not quite the same as being there in person. Students and the local profession can come and that was the idea of the circuit courts, that justice went to the people. It is a good concept.

Q: What recommendations would you make for counsel who are to appear before the High Court for the first time or those who have appeared on many occasions?

A: Well, the High Court is not an easy Court to appear before. In the nature of things, seven experienced lawyers are likely to have, collectively, more knowledge than the lawyers appearing before them so it is very hard for counsel to appear. In order to get through the work, propositions have to be tested and tested fairly quickly, and the Court does tend to interrogate counsel so you have to be prepared. Not only do you need to know your own argument very well, you also have to know your opponent’s argument. You have to be able to deal with that.

Some people find it difficult to handle the interrogative style but it’s essential. There’s nothing like an oral hearing. The United States, as you know, not just the Supreme Court, but all the intermediate courts and all the State courts and appeal courts, they don’t give long at all, maybe because of the sheer volume of work. But that interrogative process I found very helpful as a judge. I was often much assisted, sometimes even more assisted, by the questions that were asked by my colleagues on the Court than anything counsel said.

There is no doubt about it, that questioning, probing and testing of propositions can be done better orally and collectively with everybody present. It can be done much
more efficiently than just having hearings on the papers, or even substantially on the papers. It can be like a slaughterhouse on occasions, (laughs) if you are there on a Special Leave application. When I was on the Court it would be doing about 700 Special Leave applications a year and we were sitting with two judges on the applications and three on cases where we were concerned there might be disagreement. That meant that in addition to cases we sat on, each judge would do in the order of about 200 Special Leave applications a year. You have to be quick and efficient to get through them. I think it is even more testing being an applicant on a Special Leave applications case than conducting an appeal itself.

Q: I believe it’s 20 minutes for submissions on leave applications?
A: Yes, 20 minutes each side, but in United States the actual argument itself, not the application for leave, you are allowed 20 minutes advocacy. Some years ago the United States Supreme Court received 7000 applications for cert (certiorari), as they call Applications for Leave to Appeal, more now, thousands of Applications for Leave to Appeal. The judges just can’t deal with the number of applications so they are largely dealt with by clerks in a clerks’ pool. It makes me a bit uncomfortable to think that when you appeal to a court applications are dealt with by those employees other than the judges. I hope we never reach that stage.

Q: Counsel appearing before the High Court for the very first time will be nervous as anything for a start.
A: I don’t think I ever saw the Court to be unkind to junior counsel. I can remember when I was junior counsel appearing before the Court when Sir Garfield Barwick was presiding. He was quite helpful to me, but I lost. Later on, when I appeared in that Court as a silk, the Court treated me more firmly than it did when as a junior. I did actually appear before Sir Garfield Barwick as a silk. Yes, it was much tougher as a silk. I do not think the Court is insensitive, nor should it be, of the fear of counsel appearing before it for the first time.

Q: From your observations from the bench, did you feel that there exists a kind of fraternity of IP lawyers across the board which, in turn, assisted you in your role as an adjudicator of IP disputes?
A: There were certainly a group of specialists who speak a common sort of language but no, I don’t think it was of particular assistance. I think sometimes it gets in the way of the original language. It doesn’t mean that it isn’t helpful to have specialists because they know all the cases, they know the language of the statute but sometimes, you find this not just in IP but other specialist areas, you’ve got to watch out for LORE becoming LAW. (laughs)

Q: What was particularly interesting in your dissent in ABC v Lenah was your call for consideration of the tort of invasion of privacy. You suggested that the time was ripe for either the Court or the legislature to recognise this right of privacy which should be protected. Do you feel your call has influenced change and to what degree could such protection be introduced in IP law? For example, could it be argued that protection of a person’s image could go well beyond trade mark protection and could constitute a new IP right?
A: Well, I discussed that in Lenah. I discussed people having celebrity status, their endorsement of products, their image itself as being of considerable commercial value. I suggested that that was an aspect that ought to be explored, perhaps invasion of privacy could cover that. I also discussed in Lenah the protection of a spectacle and I was thinking of that old racecourse case, Victoria Park Racing & Recreation Grounds Co Ltd v Taylor. If you are putting on a spectacle, spectacles are very, very expensive to mount. It is not just the moving image that can be produced later or the commentary that can be reproduced but the actual spectacle itself has an immediacy which people will pay a lot of money to see. There is a big investment that goes into the running of it, so yes, I think it should be protected. The precise way in which you might do it needs consideration.

What I said in Lenah, and indeed what the Chief Justice also said, have been referred to by a number of Law Reform Commissions. There have been two decisions in which invasion of privacy
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has been decided as being available and damages have been awarded for it. One of the decisions is that of District Court Senior Judge Skoien in *Grosse v Purvis* and a Victorian County Court. The other was the decision of Judge Hampel in *Jane Doe v Australian Broadcasting Corporation*. There have been these two cases where there has been an application of this and there have been more references to the Chief Justice's decision than mine. One of the things that was decisive in *Lenah* was that the plaintiff was an incorporated company. I thought the ABC's conduct there was questionable because the material that was being telecast was almost certainly the product of a crime, breaking and entering, and nobody could have believed otherwise.

Q: Are there any other key IP issues you would like to see addressed, either by the courts or by the legislature?

A: No, I wouldn't say anything I haven't said in my judgments, such as in *Channel Ten*. In one of those cases I quoted an English IP judge, Justice Peterson, who didn't spend a long time on the bench but said in *University of London Press v University Tutorial Press*, "what is worth copying, is prima facie worth protecting". I think that is a reasonable start.

Q: As a practitioner, with all the changes and reforms to IP law, where do you think the greatest future challenges lie?

A: Protecting material against the internet. We have a foretaste of that in the *Gutnick* case where it was argued by the publisher that publication should be regarded as having occurred in the place where the server is, which was in New Jersey, USA, not Australia. That is going to be the problem. In the recent *iiNet* case, where the film was downloaded, the High Court did not find for the Hollywood studios. If intellectual property, originality and creativity are to be encouraged and protected it is no good dismissing protection as a statutory monopoly. You really have to encourage creativity. Not to do so is to debase intellectual work.

Q: That's interesting because a number of the cases that the High Court has dealt with involved the issue of inventiveness in patent law. What should lawyers concentrate on when dealing with this issue?

A: Perhaps the Law Reform Commission should have another look at it and should recommend amendments. It's not something that can be talked about off the cuff as it obviously requires very careful work and there is a public interest element in access. All of those interests need to be balanced. I think that all of the IP law, certainly the written IP law, has not kept pace with electronic dissemination of information. One of the arguments in *Gutnick*, and I found it unattractive, is that it's very hard to police. A lot of the laws are very hard to police. The notion that the police themselves or any other regulator can discover and successfully prosecute, or prevent all breaches of the law all the time, is an absurdity. The worst cases, one tries to find the worst cases or example cases, this is where deterrence comes in.

This idea that you should change the law if you cannot enforce the law because the electronic age makes it difficult to do so, does not impress me at all. That is one of the reasons why you want a remedy. I think it's a pity that exemplary damages was taken out of the law of defamation. There is such a heavy imbalance in means and capacity, between the natural person who has been defamed and the publisher. There is a form of exemplary damages in IP law, for flagrant infringement, where you need to pay more. I think that's a good idea. I think time is overdue for another look at all of this.

Q: Just a glimpse back in time. You were President of the Queensland Bar Association from 1984-1987 and President of the Australian Bar Association from 1984-1985. What were the main issues for the bar during those years? Have these issues changed, and if so, how?

A: Look, they were more prosperous years, I think it's harder for barristers now. The 1980s were a time of entrepreneurial extravagance and that led to a lot of litigation keeping lawyers employed. In particular, people have forgotten that a lot of new banks came to Australia because banking licences were freed up and there was a deal of lending. I think that some of the banks which came to this country made
some loans rather imprudently. That created a lot of litigation. So, it was an easier time for barristers. I don't know whether the issues have changed very much. There are always some issues on which bars disagree with governments, but I can't remember any particular issue that is different from the issues of that time. I just think it is harder for young barristers to get a start.

Q: It helps build their resilience?
A: Yes, well look, people forget that it is one of the few professions in which you do most of your work in public, the most important work in public, and it is intensely competitive. Doctors in an operating theatre aren't competing against each other. We have an adversarial system and barristers (and judges) perform this work in public. The Bar is very good at circulating information. If you make a mistake in court at 10:30am, it will be round the Bar common room by 1:30pm.

Q: You can run but you can't hide.
A: Exactly! Actors, sports people and barristers are working in public even more so than politicians.

Q: On a personal level, have you had role models or people who have inspired you and why?
A: Well, I had some very good senior people at the bar. My pupil master was Desmond Sturgess QC, an outstanding advocate, and I was in chambers with Cedric Hanson QC who was an extremely good barrister in every area. Desmond Sturgess QC was an outstanding jury advocate. Both were most generous with their time, and I would not have got where I did get, or have had the luck that I did have, if it hadn't been for those two. Sir Harry Gibbs was also an outstanding Chief Justice of the High Court.

Q: It speaks volumes for that collegiate spirit within the bar, even though you said it was extremely competitive, there are opportunities for more senior counsel to guide younger counsel?
A: Yes, absolutely.

Q: Do you have a motto or guiding principle or if not, what might it be?
A: I don't think I have one but what I'd say to barristers, young barristers, is, be prepared. (smile)

Q: Is there anything else you'd like to discuss?
A: Yes, there is one thing that I would like to reinforce. I think barristers need to read very, very widely. The original idea of barristers in earlier days was that they need not have a university law degree, just a broad-based humanities type education. Even in straight law, which I did at The University of Queensland, you had to do a year of English, you had to do a year of political science, a language and one other arts subject. Most of us did philosophy. I think that the current law degree is deficient. They should require at least those three other fundamental subjects to be studied.

Q: As well as statutory interpretation?
A: Exactly, yes! (smile)
Definition, Characteristics, and Justifications: An Attempt to Construct an Analytical Framework for Intellectual Property

Introduction

This article is an attempt to construct a working analytical framework for the concept of intellectual property (IP). It will do so by examining three aspects of the IP concept, including its terminology and definition, shared characteristics, and justifications. Although a widely used term today, intellectual property (IP) is still a concept in debate. The very term has been used in different senses in different contexts. No international treaty has succeeded in providing a general definition for it. Beyond terminological and definitional diversities, commentators also disagree on the function of, and rationales behind, the institution. Different IP worldviews bear not only academic significance but also policy consequences. They affect one's understanding as to what could be legitimately protected as IP as well as why and how should it be protected.¹

Terminology and Definition

The term “intellectual property” was coined in the late nineteenth century when it was perceived that copyright, patent, and trademark laws, which recognised a new class of rights in intangible creations, had more in common with each other than with the older forms of property known to Roman law.² Since then, it has been used in different senses in different contexts and for different purposes. Traditionally, it was used to describe the copyright protection of authors and to distinguish this from industrial property, i.e., patents for inventions, industrial design rights, trade marks and the like.³ Intellectual property is today “a generic title for patents, copyright, trademarks, design rights, trade secrets and so forth.”⁴ Such usage became popular from the 1960s with the establishment of the World Intellectual Property Organization (WIPO).⁵ Nevertheless, some scholars use the term in a narrower sense to “describe patent, copyright, and similar doctrines”, excluding “issues related to competition-based doctrines”, such as, trademarks and unfair competition law.⁶

There is no general legal definition of IP under multilateral IP treaties.⁷ The WIPO Convention of 1967 “defines” IP by listing its protectable subject matter or categories of rights, including “the rights relating to – literary, artistic and scientific works – performances and performing artists, photographs and broadcasts – inventions in all fields of human endeavour – scientific discoveries – industrial designs – trade marks, service marks, and commercial names and designations – protection against unfair competition and all other rights resulting from intellectual activities in the industrial, scientific, literary or artistic fields.”⁸ The similar technique is exploited in the TRIPS Agreement. Article 1.2 provides that: “For the purposes of this Agreement, the term “intellectual property” refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II”.⁹

Landes and Posner provide a forming definition of intellectual property:

By “intellectual property” we mean ideas, inventions, discoveries, symbols, images, expressive works (verbal, visual, musical, theatrical), or in short any potentially valuable human product (broadly, “information”) that has an existence separable from a unique physical embodiment, whether or not the product has actually been “propertised,” that is, brought under a legal regime of property rights.¹⁰

Phillips and Firth further distinguish the “ordinary common-sense description of intellectual property” from the “legal description of intellectual property”. In its ordinary common-sense meaning, intellectual property simply “comprises all those things that are ‘intellectual’ because they emanate from the use of the human brain...”.¹¹ The legal description of intellectual property “differs from the colloquial in that it focuses upon the rights which are enjoyed in the produce of mind, rather than upon the produce itself”.¹²
Recently, some scholars have expressed their discontent with the term intellectual property and advocate its replacement by “IP” (the abbreviation of intellectual property) or “IPR” (the abbreviation of intellectual property right). Such discontent is two-pronged.

First, it is argued that the term intellectual property scarcely describes trademarks and similar marketing devices and the use of “IP” or “IPR” will “help to deflate the grandiloquence inherent in “intellectual property”.” It was further claimed by Merges that “conventional wisdom would have it that trade mark law has long been an odd fit in the great triumvirate of intellectual property”. Secondly, there is a concern that such terminology may lead (or mislead) people to draw improper analogy between intellectual property and tangible property. Advocating the replacement of “intellectual property” by “IP”, Lemley asserts that “[i]f people think of intellectual property as a form of property because of its name and are misled by the connection, then the name should probably go.”

**Shared Characteristics**

IP law confers property rights on certain forms of information. There are three recognised basic bodies, central types, or major areas, of IP, namely, patents, copyright, and trade marks. Patents provide time-limited protection for inventions, that is, new solutions to technical problems, whether products or processes, in all fields of technology. Such protection involves granting temporary exclusive rights to prevent others from making and exploiting the invention. Copyright protects the “form of expression” of ideas. Copyright protection extends to expressions and not to ideas, procedures, methods of operation, or mathematical concepts as such. This is known as the idea-expression dichotomy. The creativity protected by copyright law lies in the choice and arrangement of words, musical notes, colours and shapes. Copyright owners are granted time-limited rights against those who copy or otherwise take and use their original works.

Trade marks provide protection for goodwill to marketing symbols, which may be any sign or any combination of signs which are capable of distinguishing the goods or services of one undertaking from those of others. Trade mark rights generally grant exclusive rights to prevent third parties from using similar signs for identical or similar goods. Trade mark rights may be maintained in perpetuity.

Over time, intellectual property has been extended to new subject matter. Such extension has been achieved either by accretion or by emulation. Whereas accretion involves re-defining an existing right so as to encompass the novel material, emulation refers to the “creation of a new and distinct right by analogy drawn more or less eclectically from the types already known.” Such new IP rights are generally referred to as “sui generis” IPRs. Sui generis is a Latin term meaning “of its own kind”, “forming a class of its own”, or “unique”. In the IP context, the term sui generis is used to identify “a legal classification that exists independently of other categorisations because of its uniqueness or because of the specific creation of an entitlement or obligation.” Examples of sui generis IPRs include sui generis design rights, utility models, semiconductor chips, and database rights.

Two characteristics shared by the various forms of IP have been identified by scholars. One relates to the nature of subject matter of IP and the other, the nature of rights granted. First, it is observed that various forms of IP, despite all the technical differences between them, “establish property protection over intangible such as ideas, inventions, signs, and information”. The intangibility of subject matter differs IP from the more familiar tangible property. IP, as one commentator puts it, is “nothing more than a socially recognised, but imaginary, set of fences and gates. People must believe in it for it to be effective.”

The other common characteristic of IP is the negative nature of rights. This point is emphasised by Cornish and Llewelyn that:

> One characteristic that shared by all types of IPR is that they are essentially negative: they are rights to stop others doing certain things – rights, in other words, to stop pirates, counterfeiters, imitators and even in some cases third parties who have independently reached the same ideas, from exploiting them without the licence of the right-owner. Some aspects of intellectual property confer positive entitlements, such as the right to be granted a patent or to register a trade mark upon fulfilling the requisite conditions; but these are essentially ancillary.

Such negative rights, as argued by Cornish, are referred to as property because “they are good
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against persons with whom no relationship exists and also because they are “exclusive rights to prevent other people from doing things”. The negativity of IPRs is the corollary of the intangibility of subject matter. That is, due to the intangibility of subject matter, the possession or utilisation of the goods in question does not impede per se others from possessing or using them simultaneously. Therefore, the right in intangible goods, such as knowledge, ideas, or reputation, “must be the right to exclude others from using and exploiting ideas, for possession alone is not enough to secure exclusivity”.44

**Justifications for Intellectual Property**

**Overview**

A justification is an “action of showing something to be just, right, or proper.” It has been felt that the status and legitimacy of intellectual property need to be justified. At the fundamental level, intellectual property is a legal institution rather than commandments handed down from the mountain top. The grant of intellectual property rights is a policy choice which may impinge on the traders, the press and media, and the public. On the other hand, the conventional arguments which justify the grant of private property rights in land and tangible resources are often premised on the scarcity or limited availability of such resources, and the impossibility of sharing, it seems especially important to justify the grant of exclusive rights over resources – ideas and information – that are not scarce and can be replicated without direct detriment to the original possessor of the intangible.

Various theories have been exploited to justify IP. Bell divides them into two broad categories. One is the utilitarian, instrumentalist, or incentive theory and the other, the natural rights, right-based, or deontological theory. He further observes that different countries may prefer different justifications. The United States and United Kingdom and other Anglo-Saxon countries favor utilitarian over deontological justifications. Other countries tend to reverse that order, favouring rights-based justifications to copyright over utility-based claims.

Whereas the natural right theory justifies intellectual property by considering what is good or fair for the author or inventor, the incentive theory has its argument based on what is good for society as a whole, at least in the economic sense. The essence of this theory is that intellectual property is not an end itself; it is an instrument for the stimulation of other matter, such as innovation or competition. It presupposes that innovation is good for the society or the public in general. It also presupposes that the supply of intellectual goods will be under the optimal level without proper incentives.

This argument provides us with a utilitarian justification free from the entanglement of moral or other metaphysical considerations. Its merit is especially clear when dealing with areas where intellectual creations are the result of the intertexture of individuals and new technologies. This theory may be promising in providing normative guidance and explaining the working of intellectual property system, such as why the exclusive rights are only granted for a certain period of time and are subjects to a variety of exceptions. This is because it views the grant of intellectual property as a cost-benefit trade-off. Intellectual property bears social costs. It is, first if all, very costly to enforce. Its monopolistic nature can lead to deadweight loss and rent-seeking and, thus, misallocation of resources. In addition, it creates artificial barriers to the access of information. The more expansive intellectual property rights are the heavier the social costs. Thus, it is important to strike a balance between benefits and costs.

This article will focus on a specific form of incentive theory, that is, the economic approach, which views IP as a form of government intervention in the economy. Traditionally, economists identify three basic reasons why the government intervenes in the economy. First, the government may do so to improve economic efficiency by correcting market failures. Secondly, the government may intervene to pursue social values of fairness, or equity, by altering market outcomes. Thirdly, the government may aim to pursue other social value by mandating the consumption of some goods, called merit goods, and prohibiting the consumption of some goods, called merit bads.
Table 1: Reasons for government intervention in the economy.

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Natural Right Justification and Its Criticism

Under the natural right theory, the basic reason for IP, as for other tangible property, is that a man should have the natural right to own what he produces. This right-based argument is normally connected to the property theory of the eighteenth-century philosopher, John Locke:

*Though the earth and all inferior creatures be common to all men, yet every man has a “property” in his own “person.” This nobody has any right to but himself. The “labour” of his body and the “work” of his hands, we may say, are properly his. Whatever, then, he removes out of the state that nature hath provided and left in it, he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property. It being by him removed from the common state Nature placed it in, it hath by his labour something annexed to it that excludes the common right of other men. For this “labour” being the unquestionable property of the labourer, no man but he can have a right to what that is once joined to, at least where there is enough, and as good left in common for others.*

Locke's argument was an attempt to legitimise the existence of private property. Locke started his inference by the insertion of two metaphysical premises. The first is that in the state of nature, natural resources are common to all men. And the second is that everyone has a property in his own person and labor. Property rights are only granted to those whose labour adds value to the goods they take away from the common stock subject to the condition that there is "enough and as good" left in common for others. For some scholars, this theory provides a "simple but powerful reason" for intellectual property regime because "a man uses nothing to produce it other than his mind".

The reason for this approval is apparent. One can easily draw a parallel between Locke's theory and intellectual property. The public domain can be viewed as the counterpart of Locke's common stock. Propertisation of part of the public domain is justified when authors or inventors mix their "mental labour" with what they take from the public domain as long as they leave "enough and as good" for others. By and large, this theory provides us with a self-contained and morally persuasive justification. That is, the grant of intellectual property requires no exogenous justification. It is granted simply because "it is right and proper to do so".

Nevertheless, using this theory to justify intellectual property may evoke a methodological problem. That is, Locke's argument may be used out of context. Locke seemed to have based his argument on the concept of tangible goods. He found it necessary to justify private ownership because the owner "removed" out of the common stock what had been common to all men. It is, however, hard to see what is removed out of the public domain in the creation of intellectual property.

The fact that one writes a story consisting of ten thousand different words does not prevent anyone from using these words. Again, does one take away anything from anyone when he figures out a new method of catching rats? Obviously, he does not. This new method does not exist before he figures it out and all the old methods are still there for others' use. Locke's theory invokes property rights to protect fruits of one's labour. If A's neighbour eats his apple, he will not be able to have that apple for lunch. Therefore, he needs legal rights to stop others from eating his apple. But if A's neighbour who overhears the song A wrote for his daughter decides to use that song to entertain his girlfriend A can still enjoy the pleasure of singing it. Again, sharing a new rat-catching method with other does not hamper one's own use of that method or weaken its effectiveness. Since it is impossible for others to interfere with one's intellectual creations, what is the point of invoking property right protection?

The Lockean justification has also been attacked from a technical perspective. As Landes and Posner have argued, this theory may fail to take into...
consideration the actual process of intellectual creation:

[I]ntellectual creation is a cumulative process – each creator of “new” intellectual property building on his predecessors – and since copyright and particularly patent law give a long-term property right to someone who may have won the race to come up with the new expressive work or new invention by just a day, it is unclear to what extent an intellectual property right can realistically be considered the exclusive fruit of its owner’s labour.55

Natural rights theory is also criticised for its lack of ability to provide explanatory power and normative guidance.56 More seriously, it is argued that natural rights theory has been misguiding the development of IP law. According to Lessig, a right-based theory may lead people to becoming “accustomed to thinking of the monopoly rights that the state extends not as privileges granted to authors in exchange for creativity, but as rights. And not as rights that get defined or balanced against other state interests, but as rights that are, like natural property rights, permanent and absolute.”57

**Economic Justifications**

Scholars, analysing IP through the lens of economics, view IP as a form of government intervention in the economy. Hovenkamp, for example, explicitly describes intellectual property as a form of government intervention aimed at correcting some sources of market failure.58 He argues that:

> At some level even the most hard core neoclassicists concede that some markets are efficient only if the state intervenes … In fact, however, the existing IP system is a very elaborate effort to correct a market failure … Anyone who does not believe that the IP laws are a form of regulation has not read the Patent, Lanham, or Copyright Acts and the maze of technical rules promulgated under them.59

Hovenkamp’s insight is reinforced by other IP scholars. Lemley describes intellectual property as “government regulation in the classic neutral sense of the term – government intervention in the free market to alter the outcome it would otherwise produce because of a perceived market failure.”60 Similarly, Ghosh submits that “patent law should be viewed as a form of regulation integrated into other activities of the modern regulatory state.”61

Through the lens of market failures, a generally accepted distinction is made between patents and copyright on the one hand and trade marks on the other. While the former are designed to address the public good problem,62 the latter are legal responses to the problems of information asymmetry.63

**Public Good Problem and Incentives for Innovation**

The main economic justification for patents and copyright is that they serve as incentives for the goals of promoting innovation and progress.64 Advocates of this theory argue that the subject matter of IP, namely, information and ideas, is characterised by what economists call “public good” characteristics. A public good is a commodity with two closely related characteristics. One is “non-rivalrous consumption”, which means the consumption of a public good by one person does not leave less for any other consumer. The other characteristic of public goods is “non-excludability”, which means the costs of excluding non-paying beneficiaries are so high that no private profit-maximising firm is willing to supply the good.65 The standard example of a public good is national defence.66 In contrast, a private good, such as a hot dog, is consumed by only one consumer – it cannot be consumed by another as well.67

Economists also view information or ideas as a public good.68 It can be easily observed from daily experience that one person’s use of an idea or information does not diminish its availability for others to use. Thus, consumption of information is non-rivalrous. Meanwhile, the costs of excluding some people from learning about a new idea can be high because the transmission of ideas is so cheap. Information, therefore, is non-excludable.69

The public good characteristics of information and ideas beget the problems of free-riding and “non-appropriability”. That is, they are generally costly to produce and cheap to transmit. Popular music, for example, is costly to make and recordings are cheap to copy. The instant the producer sells information to the buyer, that buyer becomes a potential competitor with the original producer. A buyer of a compact disk recording at a music store can copy the disk immediately and resell it to others. He can undercut the original producer because he bears only the cost of transmission, not the cost of production. Customers will also try to “free ride” by paying no more than the cost of transmission. The fact that producers have difficulty selling information for more than a fraction of its value is called “the problem of non-appropriability”.70

As a consequence of these two problems, rational producers will refuse to invest their own time and
money in creating new information products. They will, instead, wait for others to do so and then free ride the fruit. The result of such collective rational behaviour is the insufficient supply of intellectual goods.

As advocates of the incentive theory, Burk and Lemley assert, in the patent context, that:

*There is virtually unanimous agreement that the purpose of the patent system is to promote innovation by granting exclusive rights to encourage invention. The standard account of the patent system recounts how such exclusive rights address the public goods nature of inventions that are expensive to produce but easy to appropriate. The consensus position has been that such legal restraints on patentable inventions are justifiable if they offer a net benefit to society, trading the disutility of restricted output and higher prices for the greater social utility of inventions that might otherwise not be produced.*

Similarly, Netanel justifies copyright protection by arguing that:

*Unlike most goods and services, creative and informational works can be enjoyed by unlimited numbers of persons without being consumed … Copyright protection is necessary because, in its absence, unbridled competition from free riders who are able to copy and distribute the work without paying copyright royalties would drive the price for user access to its near-zero marginal cost. This free rider problem, in turn, would greatly impair author and publisher ability to recover their fixed production costs. In a world without copyright, only authors unconcerned with monetary remuneration would produce creative expression and only publishers with no need for financial return would invest in selecting, packaging, marketing, and making such expression available to the public. Without copyright, creative expression would likely be both under-produced and, no less importantly, under-disseminated.*

It can be observed that the incentive theory paints a rather pessimistic picture of IP. Lemley has gone so far as to claim IP as “a necessary evil.” The reason for such a pessimistic attitude lies in the realisation of the social costs imposed by the IP system.

Criticisms of the IP system are several-fold. First, it may create monopoly power. Exclusive rights to prevent other people from doing things are at least monopolistic in a legal sense, if not necessarily in an economic one. Such monopolistic nature can lead to deadweight loss and rent-seeking and, thus, misallocation of resources. In addition, it creates artificial barriers to the access of information.

Secondly, being market-oriented, the IP system spreads the burdens of the system among those who buy the knowledge goods, and thus spreads the burden based on consumer preferences. It cannot induce investment that is not projected to yield a profit under current rules of IP, but by punishing those who make non-remunerative investments, enforces a kind of discipline on investment decisions.

Thirdly, under the IP system, there would be cost associated with deciding the granting of patents, the protection of IP, and the litigation. IP is costly to enforce. The costs of implementing a system of IP laws include establishing the infrastructure of an IP regime, and mechanisms for enforcement of IP rights as well as the post-implementation costs such as the costs of scrutinising the validity of claims to patent rights and adjudication upon actions for infringement. Enforcement of IPRs is especially difficult because the boundary of rights is very not clear. In many cases, it is impossible to know whether one is “trespassing” upon another's IPR.

Fourthly, the inventors or creators bear risks because it is market-mediated and the reward is, therefore, not guaranteed. It is estimated that at least two-third of all patents turn out to be worthless.

As a result, the incentive theory of intellectual property dictates that intellectual property rights should be granted only where necessary. This theory is promising in providing normative guidance and explaining the working of intellectual property system, such as why the exclusive rights are only granted for a certain period of time and are subject to a variety of exceptions. This is because it views the grant of intellectual property as a cost-benefit trade-off. Intellectual property bears social costs. The more expansive intellectual property rights are the heavier the social costs. Thus, it is important to strike a balance between benefits and costs.

IP is not the only policy tool for the promotion of innovation. Recognition through publication, academic tenure, and prizes for achievements may also provide incentives. An often mentioned alternative system to IP is subsidy or direct reward by government. Netanel, for example, claims that in the absence of massive government or private...
subsidy, some measure of copyright protection is necessary to support authors and publishers engaged in the creation and dissemination of original expression.85

Occasionally, IP is analogous to a form of government subsidy which is “designed to influence supply in market away from the competitive norm just as support from the National Endowment of the Arts, the National Institutes of Health, or crop supports to farmers.”86 The main feature of a subsidy system is that it spreads the burdens of the system among taxpayers, who may or may not benefit from the investment. The distribution of the burden depends on the tax rate. The subsidy can directly target certain fields for investment but is not subject to penalty if the investment turns out not to be beneficial. It is argued that the government subsidy possesses some advantages vis-à-vis the IP system. First, under the subsidy system incentives to innovate are provided without granting innovators monopoly power over price.87 This can engender significant increase in consumer welfare in some areas. Pharmaceutical products, for example, would be far cheaper and more widely used.88 Secondly, under this system, innovations would pass immediately into the public domain, becoming freely available to all. Therefore, subsequent innovators are free to improve it immediately.89

However, as it has been observed, the subsidy system also possesses certain inherent shortcomings. First, there is a problem of government ignorance. That is, unlike the decentralised marketplace, the government may lack the knowledge of what needs to be invented or how to value new inventions. Incorrect decisions on the part of government decision-makers could result in insufficient investment in invention or investing in the wrong types of invention or under-or-overvaluation of what has been invented.90 Government subsidies can, thus, lead to misallocation of resources unless the government has very good information and the will to use it.91 Second, there is a rent-seeking problem. That is, competition for government funding also lead to rent-seeking problems on the part of private actors or agency captured by the affected industries.92

Information Asymmetry and Institutionalisation of Reputation

The economic justifications for trade marks involve another subset of market failures known as information asymmetry, which refers to the situation wherein one party in an economic relationship has more information than the other.93 This theory argues that trademarks operate in the public interest because they increase the supply of information to consumers and, thereby, the efficiency of the market.94

The starting point of this argument is that in many markets, sellers have much better information as to the unobservable features of a commodity for sale than the buyers.95 Nelson contends that it is difficult for consumers to obtain information about the quality variation of products. Such limitations of consumer information about quality have profound effects on the market structure of consumer goods.96

Based on how information regarding to quality is accessed by or conveyed to consumers, economists classify goods into three categories, namely, search goods, experience goods, and credence goods. In the case of search goods, consumers can ascertain quality prior to purchase through inspection and/or research. In the case of experience goods, consumers can ascertain quality after purchase through use and experience. In the case of credence goods, neither prior inspection nor subsequent use is sufficient to ascertain quality. Purchase decisions will be based mainly on the information provided by the producer. Independent certification becomes important.97 It is argued that information asymmetry impacts negatively on the market. In his seminal work, “Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism”, Akerlof, taking the market for second hand cars as an example, illustrates how information asymmetry could lead to adverse selection and moral hazard:

An asymmetry in available information has developed: for the sellers now have more knowledge about the quality of a car than the buyers. But good cars and bad cars must sell at the same price — since it is impossible for a buyer to tell the difference between a good car and a bad car… For most cars traded will be the “lemons,” and good cars may not be traded at all. The “bad” cars tend to drive out the good (in much the same way that bad money drives out the good) […] the bad cars sell at the same price as good cars since it is impossible for a buyer to tell the difference between a good and a bad car; only the seller knows.98

Thus, asymmetrical information in relation to the quality of goods will impact adversely on the market. Higher-quality products will be driven out of the market, resulting in a drop in the quality of
goods supplied and some consumers will no longer be able to satisfy their preferences.\textsuperscript{99} “Reputation” is used by economists as shorthand of the quality expectation on the part of consumers.\textsuperscript{100} When saying that a firm has a good reputation, we are, more often than not, referring to “the ‘goodwill’ value of the firm’s brand name or royal customer patronage.”\textsuperscript{101} The concept of reputation only operates in a world of asymmetrical information. If all attributes of the product were imperfectly observable prior to purchase, then, the consumer would simply make the best choice. Previous purchasing experience would be irrelevant. Contrarily, if product attributes are difficult to be observed in advance, consumers tend to rely on the quality of products offered by the same producer in the past as an indicator of future level of quality.\textsuperscript{102} Thus, the concept of reputation serves to an extent to bridge the market failure associated with asymmetry of information. Since consumers rely on sellers’ reputation, a seller who chooses to enter the high quality segment of the market must initially invest in his reputation via the production of quality merchandise. Thus, in the context of information asymmetry, reputation becomes not only an indicator, but also an inducer, of quality.\textsuperscript{103}

The importance of trade marks in the world of information asymmetry is that they reduce consumers’ cost of search for desirable attributes of products:

\begin{quote}
The economic role of the trademark is to help the consumer identify the unobservable features of the trademarked product. This information is not provided to the consumer in an analytical form, such as an indication of size or a listing of ingredients, but rather in summary form, through a symbol which the consumer identifies with a specific combination of features. Information in analytical form is a complement to, rather than a substitute for trade marks.\textsuperscript{104}
\end{quote}

Thus, trade marks, as distinctive signs, are able to protect reputation through the process of “institutionalisation of reputation.”\textsuperscript{105} That is, they are able to institutionalise reputation by making use of a process which requires formalisation of the relationship between the product and the source or origin. Legal protection is needed because a successful trade mark attracts not only customers but also free-riders. In the absence of legal impediments, competitor A could easily pass their own products off as having come from B by duplicating B’s trade mark because the cost of duplicating someone else’s trade mark is small and the incentive to incur this cost in the absence of legal impediments will be greater the stronger the trade mark. The free-riding competitor will, at little cost, capture profits associated with a strong trade mark because some consumers will assume (at least in the short run) that the free rider’s and the original trade mark holder’s brands are identical.\textsuperscript{106} The result would be higher search costs for consumers and a disincentive to firms to invest in goodwill and quality products and services.\textsuperscript{107} If the law does not prevent it, free riding may eliminate the incentive to develop a valuable trade mark in the first place.\textsuperscript{108}

Trade mark law is not designed to deal with the public good problem. As argued by Landes and Posner, a trade mark is not a public good in the sense that it has social value only when used to designate a single brand. If A develops a strong trade mark for his brand that other completing firms are free to affix to their own brands, the information capital embodied in A’s trade mark will be destroyed. In contrast, unauthorised copies of a copyrighted work will not destroy the value of the work.\textsuperscript{109}

Unlike copyright and patent law, the trade mark is not designed to offer its holder incentives to innovate or create.\textsuperscript{110} Trade mark law aims to provide business with an incentive to provide consistency in the quality of their products or services, rather than the development of the trade mark itself.\textsuperscript{111} Patents and copyright incentivise future creation by granting exclusive rights to creators over their creation, which insulating them from market competition. They, thus, represent a departure from the competitive market.\textsuperscript{112} Trade mark law, on the contrary, is an affirmation of competition. It facilitates market competition by making information less expensive.\textsuperscript{113}

The registration of a trade mark does not give the owner a monopoly in either the mark, or the underlying goods or services in connection with which the trade mark is registered. If one has to use the term “monopoly”, it is only a monopoly over the use of the mark in connection with the goods and services for which it is registered.\textsuperscript{114} Therefore, the characterisation of trade marks as monopolies is unhelpful in clarifying the nature of trade mark rights.\textsuperscript{115} The most obvious social cost of trade marks is that it restricts other traders from using the using the same or a similar sign.\textsuperscript{116} More expansive
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Trade mark protection, which gives a trade mark holder the ability to control non-trade mark uses or uses of similar marks in relation to dissimilar goods, impose further costs. Some such regulations may even restrict free speech.\footnote{117}

Trade mark rights also incur the problem of cost of enforcement. Trade mark rights cover an undefined set of similar terms that will be based on what consumers ultimately find confusing in surveys. As a result, not only is there no way to determine the scope of trade mark rights \textit{ex ante}, but even a court decision won't fix it in time or space, as changes in consumer beliefs will change the scope of rights.\footnote{118}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
 & Patents/copyright & Trade Marks \\
\hline
Market failures & Public goods & Information asymmetry \\
\hline
Relation with markets competition & deviating from market competition & Facilitating market competition \\
\hline
Social costs & Monopoly power leading to deadweight loss and rent-seeking and, thus, misallocation of resources & Restricting other traders from using the same or similar sign \\
& Artificial barriers to the access of information & Administration and enforcement costs \\
& Spreads the burdens among consumers & \\
& Administration and enforcement costs & \\
\hline
\end{tabular}
\caption{Economic Features of Patents/Copyright and Trade Marks}
\end{table}

\textbf{Conclusion}

Intellectual property is a generic title for patents, copyright, and trade marks and so forth. IP law confers property rights on certain forms of information. There are three main types of IP, namely, patents, copyright, and trade marks. IP also extends to \textit{sui generis} rights either by accretion, that is, re-defining an existing right to encompass new material, or by emulation, the creation of new right by analogy drawn from the types already known. IP has two shared characteristics.

One is the intangibility of subject matter and the other the negativity of rights. From the economic perspective, IP is a form of government intervention in the economy in order to correct market failures. Through the lens of market failures, patents and copyright and trade marks are legal reactions to different subsets of market failures. Patents and copyright are developed to overcome the public good problem by providing incentives for innovation. They are regarded as “a necessary evil” and should be granted only where necessary because they impose multiple social costs.

First, they may create monopoly power which may lead to deadweight loss and rent-seeking and, thus, misallocation of resources. Secondly, they create artificial barriers to the access of information. Thirdly, it spreads the burdens among consumers. Lastly, they impose costs of administration and enforcement.

Policy alternatives to patents and copyright may include recognition through publication, academic tenure, prizes for achievements, and, most importantly, subsidy by government. The government subsidy system may possess two relative advantages over IP. Under the subsidy system, incentives are provided without granting monopoly power over price and the innovations immediately become freely available to all. Nonetheless, the subsidy system also possesses inherent shortcomings. One the one hand, there is a problem of government ignorance. Competition for funding may, on the other hand, lead to the rent-seeking problem.

Trade marks are a legal response to the information asymmetry problem. Trade marks operate in the public interest because they increase the supply of information to consumers and, thereby, the efficiency of the market. The importance of trade marks in the world of information asymmetry is that they reduce consumers’ cost of search for desirable attributes of products. A trade mark does not give its owner a monopoly in either the mark or the underlying goods or services. The most obvious social cost of trademarks is that they restrict other traders from using the same or similar sign and that they also incur administration and enforcement costs.
For further discussion about the differences between IP and real property, see, for example, e.g. Frank H. Easterbrook, "Intellectual Property is Still Property", (1990) 13 Harv. J. L. & Pub. Pol'y 108, 113, arguing that "treating intellectual property as property should appeal not only to utilitarians but also to libertarians. Intellectual property is no less the fruit of one's labour than is physical property. True, you need the government to enforce your rights by preventing strangers from using your ideas to make their own products, but you ordinarily need the government to enforce your rights in physical property against predators.")

16 Lemley, supra note 5, at 1075. There are, however, scholars who advocate treating intellectual property as real property. See, for example, Jerome H. Reichman, "Legal Hybrids Between the Patent and Copyright Paradigms", (1994) 94 Colum. L. Rev. 2432, 2443 (noting that “…the characteristic response to any given instance of market failure deemed worthy of corrective action was to codify sui generis regimes of exclusive property rights, built on modified patent or copyright principles, that overcame the lack of natural lead time and established incentive structures to reward and stimulate innovators in the fields concerned”).


19 Bodenhauen, supra note 3 (noting that “industrial designs may be excluded as consisting of those ornamental aspects or elements of a useful article, including its two-dimensional or three-dimensional features of shape and surface, which make up the appearance of the article”), (1994) 94 Colum. L. Rev. 2432, 2443 (noting that “…the characteristic response to any given instance of market failure deemed worthy of corrective action was to codify sui generis regimes of exclusive property rights, built on modified patent or copyright principles, that overcame the lack of natural lead time and established incentive structures to reward and stimulate innovators in the fields concerned”).


21 TRIPs Agreement, art. 7.


23 WIPO, supra note 20.

24 TRIPs Agreement, art. 9.2.


26 Cornish and Llewelyn, supra note 13, at 7.

27 TRIPs Agreement, art. 15.1.


29 Cornish, supra note 3, at 46.

30 Jeremy H. Reichman, "Legal Hybrids Between the Patent and Copyright Paradigms", (1994) 94 Colum. L. Rev. 2432, 2443 (noting that “…the characteristic response to any given instance of market failure deemed worthy of corrective action was to codify sui generis regimes of exclusive property rights, built on modified patent or copyright principles, that overcame the lack of natural lead time and established incentive structures to reward and stimulate innovators in the fields concerned”).

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37 Colston and Galloway, n 33, 317, (using the EU Database right as an example of a new sui generis right, “databases not reaching the copyright standard of originality may be protected by the new sui generis database right. This is a property right in a database… provided that there has been substantial investment in obtaining, verifying or presenting in contents. It was introduced by the Database Directive, implemented (in the UK) by Part III of the Copyright and Right in Databases Regulation 1997 [CRDR]).”


39 Leafert, supra note 17, at 279.

40 Hamilton, supra note 26, at 616.

41 Cornish and Lewelyn, supra note 13, at 6.

42 Cornish, supra note 3, at 46-47.

43 Carvalho, supra note 13, at 12.

44 Ibid., at 13.


46 Bently and Sherman, supra note 38, at 3-4.


49 See below 2.3.


51 This Table is compiled by the present researcher mainly based on Stiglitz and Walsh (n 209), 377, and Dennis W. Carlton and Jeffrey M. Perloff, Modern Industrial Organization, 4th edn., (Pearson, 2005), 83.

52 John Locke, Second Treaties on Government, 26, V.


54 Bently and Sherman, supra note 38, at 33.


56 Bently and Sherman, supra note 38, at 34; Landes and Posner, supra note 10, at 5.


60 Lemley, supra note 5, at 1073-74.


64 See e.g., Reichman, supra note 31, at 2434 and Shubha Ghosh, “Globalisation, Patents, and Traditional Knowledge”, (2003) 17 Colum. J. Asian L., 73, 75. It is, however, noteworthy that intellectual property is but one of the factors affecting innovation: see Michael A. Carrier, Innovation for the 21st Century. Harnessing the Power of Intellectual Property and Antitrust Law (Oxford University Press, 2005), 22, (noting that other important determinants of innovation may include government funding for basic research, the education system, science and engineering talent, company atmosphere, business climate, and tax policy).


67 Carlton and Perloff, supra note 63, at 83.

68 Ibid., at 83.

69 Cooter and Ulen, supra note 62, at 120.

70 Ibid., at 120.

71 Burk and Lemley, supra note 59, at 1580.


74 Cornish, supra note 3, at 46-47.

75 John Sloman, Essentials of Economics, 3rd edn., (Pearson Education Limited, 2004), 212-215 (Deadweight loss can be defined as the “loss of consumer plus producer surplus in imperfect markets.” Consumer surplus is the excess of what a person would have been prepared to pay for a good, i.e. the utility, over what that person actually pays. Producer surplus is the excess of total revenue over total cost, i.e. profit).

76 Rodger D. Blair and Thomas F. Cooter, Intellectual Property: Economic and Legal Dimensions of Rights and Remedies, (CUP, 2005), 16 at n. 22: (“Economic rent” is the value derived from an investment in excess of one’s opportunity cost. Rent-seeking problem: rent-seeking behaviour occurs when people seek “economic rent”, that is, value in excess of that which they could obtain from the next-best investment.)


79 Lemley, supra note 15, at 1100.

80 Ibid., at 1103.

81 This does not mean that the incentive theory can provide exact answers to these technical issues. H. Hovenkamp (“Antitrust and the Regulatory Enterprise”, (2004) 71 Colum. Bus. L. Rev., 335, 336-337 argues that IP laws are “very rough guesses about the optimal scope of protection” …… “In fact, the detailed regulatory regimes that we call the IP laws are filled with very rough guesses about the optimal scope of protection – ranging from the duration of patents and copyrights to the scope of patent claims and fair use of copyrighted material. The range of government estimation that goes on in the IP system is certainly as great as in regulation of, say, retail electricity or telephone service”.

82 Landes and Posner, supra note 9, at 21-24.

83 Downes, supra note 29, at 260.


85 Netanel, supra note 69, at 292-293.

86 Lemley, supra note 5, at 1073-74.

87 Shavell and Ypersele, supra note 81, at 526.

suggestion to alleviate this problem under the IP system is for the
monopolists to engage in price discrimination – charging more for
some units of the good than for others).

89 Shavell and Ypersele, supra note 81, at 525.
90 Blair and Cotter, supra note 73, at 16.
91 Duffy, supra note 85, at 43-44.
92 Blair and Cotter, supra note 73, at 16.
93 Sloman, supra note 72, at 215.
94 Bently and Sherman, supra note 38, at 700.
95 Nicholas S. Economides, “The Economics of Trademarks” (1988) 78
TMR 523, 526; Hovenkamp, supra note 77, at 339.
96 P. Nelson, “Information and Consumer Behavior”, (1970) 78 The
97 D Rangnekar, “The Socio-Economics of Geographical Indications:
A Review of Empirical Evidence from Europe”, 9-10 (Geneva:
UNCTAD-ICTSD, 2004); C Bramley and JF Kirsten, “Exploring
the Economic Rationale for Protecting Geographical Indications in
and the Market Mechanism”, (1970) 84 The Quarterly Journal of
Economics, 488, 490.
99 Bramley and Kirsten, supra note 94, at 75.
100 Carl Shapiro, “Consumer Information, Product Quality, and Seller
101 Carl Shapiro, “Premiums for High Quality Products as Returns to
102 Shapiro, supra note 98, at 659.
103 Bramley and Kirsten, supra note 94, at 76.
104 Economides, supra note 92, at 527-528. For a similar argument, see
also Dogan and Lemley, supra note 60, at 786-788, and Heymann,
supra note 59, at 65.
105 Bramley and Kirsten, supra note 94, at 76.
107 Stacy L. Dogan and Mark A. Lemley, “The Merchandising Right:
109 ibid., at 172-173.
110 Heymann, supra note 59, at 56.
111 Dogan and Lemley, supra note 60, at 801, at n. 93.
112 Dogan and Lemley, supra note 104, at 467.
113 Dogan and Lemley, supra note 60, at 787.
114 Hector MacQueen, et al, Contemporary Intellectual Property Law and
115 Bently and Sherman, supra note 38, at 716.
116 ibid., at 716.
117 ibid., at 716.
118 Lemley, supra note 15, at 1101.
The Report’s proposal that Australia adopt fair use and several other recommendations for new or expanded copyright exceptions are controversial. The copyright owner community overwhelmingly made submissions against fair use and the expansion of exceptions to the rights of copyright owners. Generally, the copyright user community submitted in support of the recommendations made by the ALRC.

In this article, we outline the Report and its recommendations and explore the concept of fair use as it has been applied in jurisprudence of the United States of America. We touch on the way in which fair use might be reconciled with the copyright owner’s right to make an adaptation, as well as explore the potential impact of adding incidental or technical, government and educational use as illustrative or prescribed purposes.

Background

On 29 June 2012, the Honourable Nicola Roxon delivered Terms of Reference to the ALRC for its Copyright Inquiry, requiring it to consider whether exceptions and statutory licences in the Copyright Act (1968) (Cth) (Copyright Act) are “adequate and appropriate in the digital environment” and whether “further exceptions should be recommended.” The ALRC released an Issues Paper on 20 August 2012 and a Discussion Paper on 5 June 2013. The Final Report was issued on 30 November 2013 and tabled in Parliament on 13 February 2014.

The Terms of Reference listed a number of matters that the ALRC must have regard to and a number of matters to be taken into account. Notably, the ALRC was required to have regard to the competing interests of “copyright law in providing an incentive to create” and “the general interest to access, use and interact with content in the advancement of education, research and culture”.

Submissions

There were 295 submissions on the Issues Paper and 572 submissions to the Discussion Paper. The NSW University Cyberspace Law Community undertook an informal analysis of the position taken by each submitter which we have summarised in the following table. Note that not every submitter expressed a view on every issue.

In response to the Issues Paper, there was a slight majority of submitters in favour of adopting fair use but copyright owners were overwhelmingly in opposition to the proposal:

Fair use exemption 39/32
Recommendations

In the Report, the ALRC recommends that Australia adopt fair use as a substitute for existing fair dealing exceptions, as well as introduce a range of other specific and conditional exceptions. The ALRC recommends that the right of fair use comprise four fairness factors closely emulating the US fair use provision, contained within s.107 of the Copyright Act 1976 (US Copyright Act), together with a non-exhaustive list of 11 “illustrative purposes”. These illustrative purposes consist of the five existing fair dealing exceptions, as well as six new illustrative purposes which may qualify as fair use:

- Research or study.
- Criticism or review.
- Parody or satire.
- Reporting news.
- Professional advice.
- Quotation.
- Non-commercial private use.
- Incidental or technical use.
- Library or archive use.
- Education.
- Access for people with disability.

If fair use is not enacted, the ALRC alternatively recommends that Australia move to recast the existing fair dealing provisions as “prescribed purposes”. Unlike fair use, these would not be illustrative in nature and would exhaustively designate the “purposes” for which fair dealing may be found. However, this amended framework would also require consideration of the fairness factors to determine whether a dealing is fair.

The Specific Impact of Adopting Fair Use

Under the proposed fair use or reworked fair dealing framework, the illustrative or prescribed purposes would replace the current fair dealing provisions under the Copyright Act. They would also consolidate other existing exceptions, including those concerning format and time shifting, temporary uses and proxy web caching, preservation copying and educational use.

A key factor binding these proposed amendments is an increased flexibility to adapt to new technologies via an open-ended test and technology-neutral wording. An important consequence of introducing the new test would be to remove a range of specific qualifications and conditions that apply to the existing exceptions. For example, fair dealing for research or study is subject to a five-step test, similar in nature to the proposed fairness factors. The additional factor of “the possibility of obtaining the work or adaptation within a reasonable time at an ordinary commercial price” would be removed. Currently, fair dealing for criticism or review is conditional on making sufficient acknowledgement of the work. That requirement would go. Acknowledgement is also required when fair dealing is made for the purpose of reporting news in a newspaper, magazine or periodical. Various specific qualifications and conditions applying to almost all of the existing exceptions would be abolished.

On the other hand, the proposed change would require copyright exceptions which are not currently subject to any qualifications to be assessed against the fairness factors. For example, ss.41A and 103AA of the Copyright Act currently provide a fair dealing exception for the purpose of parody and satire. Adoption of the ALRC’s recommendations would subject this exception to the fairness factors, including “the amount and substantiality of the part used” (factor 3) and “the effect of the use upon the potential market for, or value of, the copyright material” (factor 4).

Another significant proposed amendment is the potential expansion of unremunerated usage that may flow from adding, in particular, non-commercial private use and education as illustrative or prescribed purposes. The extent to which substituting an illustrative purpose of “non-commercial private use” subject to the fairness
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factors for the specific time and format shifting exceptions would result in a net loss of income for copyright owners is difficult to assess. However, the benefits in terms of comprehensibility, broad technology neutral application and alignment with social norms are clear. The position is similar in for the “education” illustrative purpose.

Fair Use and Transformation in the US

The issue of whether or not fair use is “transformative” has become a central focus of US fair use jurisprudence. If the unauthorised use of a work is found to be transformative, the use is much more likely to be regarded as fair. Several stakeholders cited its significance in US fair use analysis as a reason weighing against Australia’s adoption of the doctrine. They submit that US judicial interpretation now overwhelmingly favours copyright users, creating uncertainty as to the extent to which owners may enforce their rights. The illustrative purposes proposed by the ALRC do not provide a specific “transformative” purpose. Notwithstanding this point, the ALRC accepts that a transformative use would become part of the operation of fair use in Australia, calling it “a powerful and flexible feature of fair use”.17

So, what is transformative use under US law and, more importantly, and what risks are posed by its influential status in US fair use analysis? The underlying purpose of US copyright law is “to promote the progress of science and useful arts”.18 The US courts have deemed the “ultimate test” of fair use to be “whether the copyright law’s goal of promoting the progress of science and useful arts would be better served by allowing the use than by preventing it”.19 The case law emphasises the need to avoid “rigid application” of the copyright framework in order for creative activity to be fostered.20

Section 107 of the US Copyright Act sets out the US fair use doctrine and provides that fair use of a copyright work will not be an infringement of copyright. It includes examples of permitted fair uses which are “illustrative and not limitative”.21 It also sets out four non-exclusive factors which must be considered when determining whether a use is “fair”.

Notwithstanding the provisions of ss.106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include:

1. The purpose and character of the use, including whether such use is of a commercial nature or is for non-profit educational purposes.
2. The nature of the copyrighted work.
3. The amount and substantiality of the portion used in relation to the copyrighted work as a whole.
4. The effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not of itself bar a finding of fair use, if such finding is made upon consideration of all the above factors.

Although all four factors must be “explored” and “weighed together”,22 it is the first of the fairness factors, requiring consideration of the “purpose and character” of the use, which is the “heart of the fair use inquiry”.23 In this regard, American courts will firstly consider “whether and to what extent the new work is ‘transformative’” – that is, whether it merely “supersedes the objects” of the original or “instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message”.24

The scope of this last component – “new expression, meaning, or message” – has recently been clarified by the Second Circuit of the American Court of Appeal in Cariou v Prince (2013).25 They found that there is “no requirement that a work comment on the original or its author to be considered transformative”.26 While certain uses will necessarily comment on the original work (such as parody or criticism), a work may be found to be transformative where it “adds value to the original” by conveying “new information, new aesthetics, new insights and understandings”.27 Further, this question is to be assessed by reference to how the new work may be “reasonably be perceived”, as opposed to the intention of the creator.28

An inquiry into the “purpose and character” of the defendant’s use also requires consideration of its “commercial nature”. However, American courts have traditionally placed much less significance on this element once a work has been found to be transformative in nature. In Campbell v Acuff-Rose Music, Inc. (1994), Justice Souter held that the “the more transformative the new work, the
less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use. This principle was recently restated by the Second Circuit of the American Court of Appeal in *Carion v Prince.*

The issue of transformative use in the context of "digitisation" was recently considered by Judge Chin of the District Court in *The Authors’ Guild, Inc et al v Google Inc* (2013) in relation to Google’s digital books program, Google Books. This comprised two projects – Partner Program and Library Project – involving, *inter alia,* the digitising and indexing of scanned library books into an electronic database. The program enabled users to conduct Google searches for particular words or phrases across the full text of the works in the database, as well as to view “snippets” of uploaded material. The Authors’ Guild, a US advocacy organisation representing published authors, brought proceedings together with three named plaintiffs against Google in 2005, successfully asserting copyright infringement under s.106 of the US *Copyright Act.* However, the issue before Judge Chin was whether Google’s use of the works amounted to fair use, a question of which he ultimately found in favour.

Google’s use of the works was held to be “highly transformative” through its transformation of text both into a searchable “comprehensive word index” and into “data for purposes of substantive research” through techniques such as data and text mining in “new areas.” Judge Chin concluded that Google Books does not “supersede or supplant books”, but rather “adds value to the original”, allowing for “the creation of new information, new aesthetics, new insights and understandings.”

However, there have been concerns that the broad US doctrine of transformative use does not sufficiently distinguish between the degrees of copying involved in the array of incidental uses. As the first fairness factor is the “heart of the fair use inquiry”, the ease with which transformative use is able to apply to new technological processes may be cause for further consideration of its scope.

A specific concern has been incidental uses involving “merely articulating a new purpose for a copyright work, without changing or adding anything new.” Although ultimately unsuccessful, the Authors’ Guild contended that the mere addition of a new purpose was not sufficient to amount to transformative use, which requires “something new, with a further purpose or different character, altering the first with new expression, meaning or message.”

The Authors’ Guild also relied upon the Third Circuit decision of *Video Pipeline, Inc v Buena Vista Home Entertainment, Inc.* (2003), which concerned Video Pipeline’s online database of two-minute “clip previews” of movies. In that decision, the United States Court of Appeals Third Circuit distinguished the case from *Kelly v Arriba Soft Corp,* stating that the database did “not improve access to authorised previews located on other web sites.”

Rather, it indexed and displayed “unauthorised copies of copyrighted works” without adding any creative input. The Authors’ Guild also sought to distinguish Google Books from *Perfect 10 Inc. v Amazon.com* (2007) and *Kelly v Arriba Soft Corp* (2003), where the defendants in those cases “did not retain full-sized, original copies of the copyright images at issue on its servers.” It is noted that The Authors’ Guild have lodged a Notice of Appeal with the Second Circuit Court of Appeals.

**Transformative Use vs. "Derivative Works" and "Adaptation"**

Another important implication of Australia’s adoption of transformative use is the possible conflict between the copyright owner’s exclusive right to make an adaptation and the potential for a user to make a transformative use.

The right to make an adaptation specifically relates to literary and musical works. For example, an arrangement or transcription will be an adaptation of a musical work. In relation to a literary work, an adaptation includes a translation of the work and a version of the work “in which a story or action is conveyed solely or principally by means of pictures,” a dramatic form of a non-dramatic tree work and a non-dramatic form of a dramatic form military work. In relation to a computer program, it includes a version of the program in another computer language.

The right to make an adaptation comprises a list of specific instances where there is a departure from the form of expression of the work but, nevertheless, the rights of the copyright owner are preserved. The existence of such a right is particularly significant having regard to the *IceTV Pty Ltd v Nine Network Australia Pty Ltd* [2009], where the High Court emphasised the basic principle of copyright being a monopoly over expression not ideas. However, the right to make an adaptation confined to specific literary and musical
cases (and notably not referencing artistic works) acknowledges instances where the copyright owner can assert rights over works that are themselves transformative. It has been noted in a number of cases that original copyright may also subsist in an adaptation which also infringes upon the rights of the original copyright owner. The concept of an adaptation under Australian copyright law is analogous to that of a “derivative work” under US copyright law.

Section 101 of the US Copyright Act defines a derivative work to be “a work based upon one or more pre-existing works, such as a translation, musical arrangement, dramatisation, fictionalisation, motion picture version, sound recording, abridgement, condensation, or other form in which are work maybe recasts, transformed or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications, which has a whole, represent an original work of authorship is a derivative work”. Under US law, a copyright owner has the exclusive right to prepare a derivative work based on their original creation. Note that a derivative work includes a work that “transformed” the original work. Evidently, US law recognises a broad derivative right.

A number of commentators have noted that a transformative work will often look very much like a derivative work under US law. In fact, there is a direct tension between the interplay of both concepts. In a case note of Cariou v Prince from the February 2014 Harvard Law Review, the author comments that “the Cariou Court’s rule was not precluded by precedent, but the definition the Court adopted [of transformative use] is still the broadest of any circuit Court yet – and is in direct tension with the statutory definition of derivative works”.

The ALRC explores the interaction between transformative use and derivative rights, noting that it is the purpose of the use which is a prime consideration in respect of the former. The ALRC states that it “favours this emphasis on the question of whether use has a different expressive purpose from that of the original”.

It would appear that the ALRC intends that the author’s right to make an adaptation will be protected unless the maker of the adaptation modifies the work to add a new expressive form or content aimed at a different expressive purpose than the original. The intention is that the work not only be transformed in form (being an adaptation), but also be transformed as to use and meaning.

Incidental or Technical Use

The ability of the copyright framework to adapt to new technologies, particularly those which require the making of incidental copies, has been a key issue for the ALRC’s consideration. Although these incidental copies are integral to many platforms within our digital environment, they also call into question the extent to which such copying should be permitted. The Report proposes to include “incidental or technical use” as an illustrative or prescribed purpose to generally facilitate and permit such incidental machine-based copying.

The term “non-consumptive use” had traditionally been employed to denote such incidental uses. The term received recognition in the report of Professor Ian Hargreaves, “The Digital Opportunity: Review of Intellectual Property and Growth”, (May 2011) (Hargreaves Review) (Chapter 5), which in turn cited the report of Jennifer M. Urban in “Updating Fair Use for Innovators and Creators in the Digital Age: Two Targeted Reforms” (2010).

While having no fixed definition, “non-consumptive use” has been described as “uses, often facilitated by new technologies and increasing computer power, that do not directly trade on the underlying creative and expressive purpose of the work being used”. Commonly cited examples of such uses include “caching and indexing by search engines”, data or text mining and digitising. The Hargreaves Review recommended that the UK Government introduce a “non-consumptive use” exception, on the basis that such uses “do not compete with the normal exploitation of the work itself”.

The ALRC had initially proposed the adoption of “non-consumptive use” as an illustrative or prescribed purpose in its Discussion Paper. However, several stakeholders found the “umbrella” term too broad, noting its inability to distinguish between “technical and incidental uses and those that are not merely facilitative but are non-expressive in nature”. Accordingly, the ALRC has recommended the adoption of the “narrower and precise” construction of “incidental or technical use”.

The US courts have traditionally dealt with incidental or technical uses as part of their inquiry into the first fairness factor under s.107 of the US Copyright Act. As outlined above, this involves
consideration of the “purpose and character of the use”, with the focus of the inquiry directed to the extent to which the work is transformative.

Several incidental uses have been recognised as being transformative in the US. For example, thumbnails stored and communicated by Google in its Google Image search engine results were found by the Ninth Circuit Court of Appeals to be transformative in Perfect 10 v Google Inc et al. This was on the grounds that its transformative nature was “more significant than any incidental superseding use or the minor commercial aspects”.52 Similarly, in Kelly v Arriba Soft Corp., the Ninth Circuit Court of Appeals held that thumbnails of a photographer’s images contained in search engine results were transformative as they “serve a different function than Kelly’s use – improving access to information on the internet versus artistic expression”.53

In recent times, Australian courts have been required to grapple with the complex interaction between developing technologies involving the making of copies – such as streaming services and bit-torrent in National Rugby League Investments Pty Ltd v Singtel Optus (2012) 201 FCR 147 and Roadshow Films Pty Ltd v iiNet Ltd (No 3) [2010] FCA 24, respectively – and our current copyright framework. Noting these developments, the ALRC’s recommendation of an illustrative or prescribed purpose for “incidental or technical use” would arguably bring greater clarity to stakeholders under the proposed fair use or amended fair dealing regimes. It will allow for questions of transformative use, wider social benefit and technological growth to be tempered by the specific issue of whether such copying could be described as “incidental or technical”. While there will never be bright line answers to such uses, it will hopefully afford greater transparency to the extent of copying permissible in technological processes.

Conclusion

It is not surprising that the recommendations of the ALRC give rise to some controversy. The recasting of the statutory exceptions touches on a conflict at the core of copyright. The law is designed to reward authorship, yet the public objective is to promote knowledge and progress. This is plainly evident from the title of the seminal Statute of Anne 1710 – “An Act for the Encouragement of Learning”. While the expansion of the exceptions to copyright must to some extent diminish the rights of authors, the changes proposed by the ALRC would better allow copyright work to be processed, analysed and built upon, consistent with the greater public interest of facilitating intellectual progress.

How might society benefit from the changes recommended by the ALRC? Submitters in favour of the proposal see benefits arising from a less complicated, more principle-based Copyright Act, both accessible to the public and not so much the domain of the copyright expert. There is no doubt that the Copyright Act has been amended in a piecemeal fashion, containing many provisions that are technologically specific, strangely particular and duplicative. Advocates of reform contend that Australia’s absence of an open-ended right of fair use places it at an economic disadvantage, particularly as against the US. One must note that the innovative technologies explored in Kelly v Arriba Soft Corp and The Authors’ Guild, Inc et al v Google Inc, while both facilitated by fair use, would constitute copyright infringement under Australia’s current framework.

Another key question is precisely to what extent would amending the law as proposed by the ALRC diminish the value of copyright and/or the return the copyright owners? Many copyright owners submitted that a move to fair use would heighten uncertainty regarding the enforcement of their rights. Consistent with this notion, US advocates have called the doctrine a “lawyers’ picnic” due to the alleged ease with which opposite conclusions are reached when a use is assessed against the fairness factors. However, fair use will not be relevant to most instances of unauthorised copying.

The debate over reform in this context has been unsatisfactory. For example, the Motion Picture Association of America, which urged the ALRC to reject fair use for Australia, recently defended fair use in an Amicus Brief filed in US proceedings Bouchat v Baltimore Ravens and NFL, et al (2013), submitting that fair use was vital to their industry’s creativity, stating that “creators must be able to use copyrighted material . . . in the telling of new and engaging stories that lend insight into our world and contribute to public learning”.54 As outlined above, fair use does not need to intrude upon the rights of an owner to make an adaptation; transformation may only be found when something more than an adaptation has been made from the work. Further, with the exception of fair dealing for research and study, existing fair dealing exceptions are not subject to fairness factors. Subjecting all
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copyright exceptions to the fairness factors is to the benefit of copyright owners.

Both the submissions made in response to the Issues Paper and the public comments of owner representatives indicate that the ALRC’s central fair use recommendation is broadly supported across the education sector, industry and government.

What is the future for the Report? The Attorney-General has spoken in favour of a Copyright Act that is shorter, simpler and easier to understand, that is technologically neutral and that will operate efficiently in a global system but, however, still “remains to be persuaded that this is the best direction” for Australian copyright law.55

1 ALRC, Copyright and the Digital Economy – Final Report (ALRC 2013) at [5.24].
2 ALRC, Copyright and the Digital Economy – Issues Paper (IP 42) (August 2012) at p.9 (Terms of Reference).
3 ibid.
4 ibid.
5 ibid.
6 ibid.
7 ibid.
8 GLAM stands for “Gallery, Libraries and Museums”.
9 Parts III-IV, Copyright Act 1968 (Cth).
11 ibid.
12 Ss. 47J, 109A, 110AA and 111, Copyright Act 1968 (Cth).
13 Ss 43A, 111A, 43B, 111B and 200AAA, Copyright Act 1968 (Cth).
14 Ss 51A, 51B, 110B, 110BA and 112AA, Copyright Act 1968 (Cth).
15 Ss 28, 44, 200, 200AAA and 200AB, Copyright Act 1968 (Cth).
16 S. 40(2) (c), Copyright Act 1968 (Cth).
17 ALRC, Final Report at p.23.
18 Article 1, Section 8, Clause 8, United States Constitution.
19 Castle Rock Entm’t, Inc. v Carol Publ’g Group, 150 F.3d 132, 141 (1998).
21 S.101, Copyright Act of 1976.
23 Blanch v Koons, 467 F.3d 244, 251 (2d Cir. 2006).
25 Caruso v Prince, rev’d, 714 F.3d 694, 706 (2d Cir. 2013).
26 Caruso v Prince, rev’d, 714 F.3d 694, 706 (2d Cir. 2013).
27 Leval, Toward a Fair Use Standard, 103 Harv. L. Rev. at 1111; Caruso v Prince, rev’d, 714 F.3d 694, 706 (2d Cir. 2013).
28 Caruso v Prince, rev’d, 714 F.3d 694, 707 (2d Cir. 2013).
30 The Authors’ Guild, Inc et al v Google Inc (05 Civ. 8136 (DC) (SDNY No. 14, 2013).
31 The Authors’ Guild, Inc et al v Google Inc (05 Civ. 8136 (DC) (SDNY No. 14, 2013) at 19-21.
32 The Authors’ Guild, Inc et al v Google Inc (05 Civ. 8136 (DC) (SDNY No. 14, 2013) at 21.
33 Blanch v Koons, 467 F.3d 244, 251 (2d Cir. 2006).
34 Plaintiff’s Reply in Support of their Motion for Summary Judgment (Case No. 05 CV 8136-DJC (Doc. 1085) at 31.
35 The Authors’ Guild, Inc et al v Google Inc (05 Civ. 8136 (DC) (SDNY No. 14, 2013) at 31.
36 Video Pipeline, Inc v Buena Vista Home Entertainment, Inc., 342 F.3d 191, 198 (3d Cir. 2003).
37 Video Pipeline, Inc v Buena Vista Home Entertainment, Inc., 342 F.3d 191, 198 (3d Cir. 2003).
38 Perfect 10, Inc. v Amazon.com, Inc., 508 F.3d 1146, 1166-67 (9th Cir. 2007); Kelly v Arriba Soft Corp., 336 F.3d 811, 818 (9th Cir. 2003).
39 Plaintiff’s Reply in Support of their Motion for Summary Judgment (Case No. 05 CV 8136-DJC (Doc. 1085) at 10.
40 S.10, paragraph (c)(ii) of the definition of “adaptation”, Copyright Act 1968 (Cth).
41 IsTV Pty Ltd v Nine Network Australia Pty Ltd [2009] HCA 14.
42 Second Circuit Holds that Appropriation Artwork Need Not Comment on the Original to Be Transformative – Cariou v Prince, 714 F.3d 694 (2d Cir.2013), 127 Harv. L. Rev. 1228 (2014).
43 ALRC, Final Report at pp.132-133.
44 ibid at p.132.
46 Urban at 18; I Hargreaves at [5.24].
47 ALRC, Final Report at [11.6].
48 Hargreaves at [5.24].
50 ALRC, Final Report at [11.44].
51 ibid at [11.45].
52 Perfect 10, Inc. v Amazon.com, Inc., 508 F.3d 1146, 1166-67 (9th Cir. 2007).
53 Kelly v Arriba Soft Corp., 336 F.3d 811, 818 (9th Cir. 2003).
Just What is Bad Faith?

Before looking at how it has been received in New Zealand, it is worth stepping back and looking at just what bad faith is.

The Duhaime online law dictionary defines bad faith in broad terms as “intent to deceive” and perpetrated by “a person who intentionally tries to deceive or mislead another in order to gain some advantage”. This suggests that the two fundamental ingredients of bad faith are intent and the motivation to gain an improper advantage. Inherent in this seems to be intent to mislead or deceive someone and to obtain some benefit at that party’s expense. This is sometimes referred to colloquially and pejoratively as “stealing a march” on them.

Good faith is the opposite of bad faith. Both involve a subjective state of mind. The former suggests an open and honest purpose; the latter ill-will and duplicity and, in more serious cases, an overtly sinister motive.

The case law indicates that the concept is of broad application. It implies or involves actual or constructive fraud, or a design to mislead or deceive another, or a neglect or refusal to fulfil some duty or some contractual obligation, not prompted by an honest mistake as to one’s rights or duties, but by some interested or sinister motive.

The case law indicates that the concept is of broad application. It implies or involves actual or constructive fraud, or a design to mislead or deceive another, or a neglect or refusal to fulfil some duty or some contractual obligation, not prompted by an honest mistake as to one’s rights or duties, but by some interested or sinister motive. In its broadest sense, bad faith connotes some form of intentional dishonest act, and as we shall see, the violation of basic standards of honesty in dealing with others. It is this broad “mores-based” concept of bad faith which has found its way into our law as courts have grappled with how to interpret the term and locate it in the appropriate legal and commercial context. An example is the now well-established judicial formulation that bad faith may involve “dishonesty which would fall short of the standards of acceptable commercial behaviour observed by reasonable and experienced men in the particular area being examined.”

An analysis of recent cases shows that bad faith is a broad and flexible concept. An underhanded or sinister motive is not necessary – all that is needed is a failure to meet the standards of acceptable commercial behaviour. In a sense, bad faith lies in the uncomfortable confluence between moral and commercial imperatives. This creates its own challenges. One of the difficulties is drawing a line between robust and healthy competition, and actions which overstep the mark and justify regulation through the often heavy hand of the law.

Where Should the Boundary Lie?

The dilemma, of course, is that many commercial decisions are aimed at improving one party’s commercial position at the expense of competitors. In New Zealand, an example of this was the dispute over the RADIANT trade mark. Unilever had a long-standing trade mark registration for RADIANT. The registration was vulnerable for non-use. Cussons started using RADIANT in New Zealand. The parties entered into discussions. During these discussions, as a backup, Unilever filed a new application for the same mark. Negotiations between the parties broke down. Unilever sought an interlocutory injunction to enjoin Cussons from using the mark. In the High Court, Baragwanath J refused the application and characterised Unilever’s conduct as “less than candid” and “disingenuous”.

On appeal, a central issue was whether Unilever had unclean hands. The Court of Appeal considered whether Cussons’ omission to take “all available steps to preserve an opportunity to secure the trade mark for itself” was a relevant consideration and whether its allegation of lack of “clean hands” had merit. In rejecting the complaint, the Court noted that, in principle, there is nothing to prevent the registration of the same mark twice for the same goods by the same proprietor. The Court also noted that in most cases where a plaintiff had been declined relief on the ground of unclean hands its conduct had amounted to some breach of duty which it owed to the defendant or the public generally. It found that Unilever owed neither Cussons nor the public generally such a duty. Gault J (as he then was) went on to state:
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In the world of commerce between vigorous international competitors, the law does not impose some equivalent of Queensberry Rules. We see no basis in this evidence for refusal of relief for the lack of “clean hands”.7

A similar sentiment was expressed by Gault J when his Honour said that:

The commercial law in New Zealand is based on the premise that society’s resources are best allocated in a competitive market where rivalry between firms ensures maximum efficiency in the use of resources.8

This approach is broadly consistent with the one adopted in Australia9 and endorsed in New Zealand in Automobile Club de L’Ouest, ACO v South Pacific Tyres New Zealand Ltd,10 that even though a trade mark registration had been made to deliberately forestall the applicant and prevent it selling cigarettes in Australia under the name of “Yanx”, which was arguably sharp business practice:

… it is not in itself fraudulent or a breach of the law. The two companies were competitors in business and there were no agreements or business arrangements between them which prevented the one company outwitting the other if it could lawfully do so.

Proprietorship and Bad Faith

Disputes as to entitlement to registration may arise in a number of contexts. One is whether the applicant is genuinely entitled to register the mark. In this context, the question arises whether the claim to ownership under s.32 of the Trade Marks Act 2002 (NZ) is one which is capable of being established as a valid claim or as Woodhouse J put it in Chettleburgh v Seduce Group Australia Pty Ltd11 whether there is a bona fide claim to ownership – a claim genuinely made and challenged on the basis that another party is in fact the genuine owner.

In Seduce, Woodhouse J also discussed12 the historical origins and interrelationship between proprietorship and bad faith:

The 2002 Act is not a restatement of the 1953 Act. As one author has observed, although many provisions of the 2002 Act contain references to the Singapore Trade Marks Act 1998, the 2002 Act is substantially based on the Trade Marks Act 1994 (UK). The UK Act in turn contains wording derived from an EC Directive including bad faith as an absolute ground for refusing registration. Notwithstanding the origins of parts of the 2002 Act, and the introduction of new concepts such as bad faith, I am satisfied that the law that applied under the 1953 Act in respect of the scope of the expression “claiming to be the proprietor” continues to apply under the 2002 Act. [footnotes omitted]

The twin concepts of proprietorship and bad faith overlap and inform each other. It is now well-established in New Zealand that there are three requirements for a legitimate claim to proprietorship: no prior use or prior assertion of proprietorship; the applicant is using or has a sufficiently definite intention to use the mark; and there is no fraud or breach of duty involved.13 In terms of the final requirement, lack of fraud or breach of duty, bad faith considerations often come into play.

Bad faith did not form an explicit part of New Zealand trade mark law under the earlier 1953 Act. However, s.1614 involved broadly similar considerations. In the leading Court of Appeal decision of Wham-O Manufacturing Co v Lincoln Industries Limited,15 it was found that the defendant’s application was not made in good faith,16 and as a result, it was “disentitled to protection in a court of justice”.

Valley Girl

In another 1953 Act decision, Valley Girl Co Ltd v Hanama Collection Pty Ltd,17 the Office and on appeal High Court dealt with allegations of misappropriation of a well-known Australian mark.

Valley Girl used and owned the trade mark VALLEYGIRL in Australia for clothing and accessories for young woman. Hanama supplied garments and materials to Valley Girl but then ceased doing so. It then sought to register the mark in New Zealand. The question was whether this amounted to wrongful appropriation of a foreign mark. In essence, the Office and Court were required to determine who the true proprietor of the mark was.

Assistant Commissioner Walden found for the Australian company. On appeal, the decision was upheld by Miller J. A fundamental factual issue was whether Valley Girl could establish sufficient reputation in New Zealand and, if so, whether that reputation in New Zealand would lead to a likelihood of confusion or deception.
In setting out the law, Miller J reminded himself\(^\text{18}\) that, while it is not sufficient to point to reputation in Australia alone,\(^\text{19}\) actual trade or dealing in goods bearing the trade mark in New Zealand is not necessary, nor is it necessary that the goods be in New Zealand at the time the mark is used.\(^\text{20}\)

His Honour accepted\(^\text{21}\) that, in certain situations, very small amounts of use of the foreign mark in New Zealand may be sufficient to establish that it is distinctive of the foreign owner's goods; relying on the now familiar words of Williams J in \textit{7-Up} \(^\text{7}\) – that when there is an existing relationship between the parties the Court adopts a very different perspective and one which resonates with the moral undertones referred to above, namely:

\begin{quote}
The court frowns upon any attempt by one trader to appropriate the mark of another trader although that trader is a foreign trader and the mark has only been used by him in a foreign country. It therefore seizes upon a very small amount of use of the foreign mark in Australia to hold that it has become identified with and distinctive of the goods of the foreign trader in Australia. It is not then a mark which another trader is entitled to apply under the Trade Marks Act because it is not his property but the property of the foreign trader. 
\end{quote}

Miller J then noted\(^\text{23}\) that in \textit{Wham-O Mfg Co} the Court of Appeal did not confine itself to a breach of duty but spoke in general terms in holding that an application for registration that is not made in good faith is disentitled to protection in a court of justice. His Honour then relied\(^\text{24}\) on Lindsay J’s judgment in \textit{Gromax Plasticulture Limited v Don & Low Nonwovens Limited}:\(^\text{25}\)

\begin{quote}
I shall not attempt to define bad faith in this context. Plainly it includes dishonesty and, as I would hold, includes also some dealings which fall short of the standards of acceptable commercial behaviour observed by reasonable and experienced men in the particular area being examined. Parliament has wisely not attempted to explain in detail what is or is not bad faith in this context: how far a dealing must so fall-short in order to amount to bad faith is a matter best left to be adjudged not by some paraphrase by the courts (which leads to the danger of the courts then construing not the Act but the paraphrase) but by reference to the words of the Act and upon a regard to all material surrounding circumstances. 
\end{quote}

Thus, even though bad faith was not formally a ground of objection under the 1953 Act, the Court approached the matter\(^\text{26}\) on the basis that:

\begin{quote}
… the appellant was not entitled to claim proprietorship of the mark in New Zealand if its claim is affected by fraud or breach of duty, or the application was made in bad faith. The New Zealand Act did not refer to bad faith, but I accept that bad faith is not confined to dishonesty. It may be demonstrated by evidence of conduct falling short of reasonable standards of commercial behaviour.
\end{quote}

The Judge was not prepared to find any breach of duty, but considered whether the conduct could be characterised as falling short of the standards of acceptable commercial behaviour and thereby amounted to a lack of good faith. His Honour concluded that Valley Girl had not established its case on this ground:

\begin{quote}
I accept that the appellant has chosen to appropriate the respondents’ mark. In so doing, the appellant took an opportunity that arose out of Mr Cho’s business dealings with the respondents in Australia. It is a reasonable inference that the appellant hopes to exploit such recognition as the mark has in New Zealand arising out of its use in Australia. The question is whether that amounts to bad faith.

I am not satisfied that it does. The starting point is that there is no prohibition on a trader registering a foreign mark for use in New Zealand, in circumstances where there has been no prior use of the mark in New Zealand: \textit{7-Up Co v OT Ltd} (above, at 211). Accordingly, something more than appropriation of a foreign mark must be shown in order to establish bad faith. Since that is all the respondents can point to, their objection to the appellant’s claim to proprietorship fails so far as it is based on bad faith, fraud, or breach of duty.\(^\text{27}\)
\end{quote}

While upholding the Office decision that the Valley Girl mark was not registrable in New Zealand because of the likelihood of confusion and deception the Court was not prepared to find, on the facts, that in applying for registration the applicant had acted in bad faith. Even so, through the process of importation from abroad the concept of bad faith found its way into our case law. Since then it has received express statutory recognition.\(^\text{28}\)
In line with the topic of this article “A Matter of Proof”, in *Seduce* the Court noted that there were a number of disputed areas of fact, including whether the Assistant Commissioner was wrong to conclude that Seduce Group (an Australian company) had not abandoned its mark in New Zealand and, secondly, whether there had been relevant use of the mark by Seduce Group in New Zealand between certain dates.

Notwithstanding this, Woodhouse J indicated that he was satisfied that Seduce Group met its onus of establishing that, at the relevant date, it was the owner of the mark in New Zealand and relying on the *7-Up* principle that, as a matter of law, a very small amount of use of the foreign mark in New Zealand may be sufficient.

His Honour noted that there were other areas which, while not readily reconcilable with the evidence, remained at present unchallenged. In terms of practical outcome, his Honour then went on to state:

> I have used the expression “presently unchallenged” because of my conclusion, as earlier noted, that the issue of ownership should go back to the Commissioner for a new hearing. Matters that I have just referred to will be able to be further explored to the extent the parties consider it appropriate. And because I am referring the matter back to the Commissioner, the conclusions I have expressed in this part of the judgment on the merit, although sufficient to dismiss the appeal on the merit at this point, are not to be taken as findings binding on the parties other than for the purposes of disposing of the appeal by directing a new hearing.

Thus, having resolved the primary issue on appeal (one of statutory interpretation) the Court remitted the matter back to the Commissioner for a new hearing. This indicates that disputes of this nature should not be decided on incomplete evidence and that if a party has been disadvantaged through insufficient notice or inadequate pleadings, the matter should be returned to the Office for further hearing.

On 12 March 2014, Assistant Commissioner Walden issued a second decision, again finding that Seduce Group, not the registered proprietor Gary Chettleburgh, was the true owner of the SEDUCE trade mark in New Zealand in relation to women’s fashion clothing at the relevant date. The Assistant Commission also found that there is no discretion under s.73 of the *Trade Marks Act* 2002 which could be exercised by declining to make the declaration of invalidity sought, but even if there were such a discretion, it should only be exercised in exceptional circumstances. She went on to conclude that there were no exceptional circumstances which would justify not declaring the registration of the relevant mark invalid.

This decision, in turn, has been appealed and the matter is heading back to the High Court.

**Neumann**

In *Neumann v Sons of the Desert SL*, the High Court confirmed that, where there are co-owners of a trade mark, an application to register the mark by only one of the owners, without the co-owner’s knowledge, is deemed to have been made in bad faith.

The central issue was who owned the disputed trade mark. The appellant, Mr Neumann, asserted that he and two others, Messrs Galdeano and Steffan, had incorporated a company in Spain. The company was set up to market casual wear and clothing using the word El Niño and the device of a seated boy. Mr Neumann asserted that there was an oral agreement between them that the trade marks of the business – including the El Niño name and the seated boy device – would be jointly owned by all three of them, in all countries of the world.

Through a series of transactions, Mr Galdeano became the sole director and shareholder of the respondent company. This company applied for the mark in New Zealand. Mr Neumann argued that Mr Galdeano’s knowledge of the appellant’s co-ownership of the trade mark should be imputed to it and that it was wrong that the application could be made in such a way as to deprive the appellant of the benefit of his ownership. The appellant also argued that it was in breach of Mr Galdeano’s contractual obligations to him as co-owner.

Mr Galdeano resisted by saying that he was in fact the sole creator of the seated boy device and that this formed an essential feature of the trade mark. This, he argued, entitled him to apply for the mark in New Zealand. Further, he gave evidence that any agreement between him and the appellant related
only to trade marks in Spain and the European Union and it did not extend to New Zealand.

The Assistant Commissioner accepted that Mr Galdeano’s knowledge could be imputed to the respondent company. However, she found that on the evidence before her there was insufficient proof that there was an agreement between Mr Galdeano and the appellant that they would jointly own trade marks consisting of the seated boy device, in all countries of the world (including New Zealand). Accordingly, the opposition failed without the Assistant Commissioner going on to consider whether this might amount to bad faith. With respect, for reasons which will become apparent below, that decision is entirely sound.

However, Mr Neumann filed an appeal. He also applied under r 716 of the High Court Rules to adduce further evidence, having tracked down the hitherto elusive Mr Pozo in Barcelona and Mr Steffan in Zurich. They confirmed that there was in fact an oral agreement between the shareholders of the relevant company that trade marks incorporating the seated boy device and the name El Niño were owned by them in equal shares, in all countries of the world. Mr Galdeano did not challenge this evidence nor appear at the appeal hearing.

Andrews J relied on Aldous J’s majority judgment in the English Court of Appeal in Harrison’s Trade Mark Application,37 where the Court applied a “combined” test for determining whether an application for registration has been made in bad faith. That is, to decide whether the knowledge of the applicant (a subjective element) was such that its decision to apply for registration would be regarded as being in bad faith by persons adopting proper standards (an objective element).

In the absence of any direct authority on entitlement to register a trade mark which was challenged by a co-owner of the mark her Honour considered38 a number of relevant circumstances, including:

(a) That there was in fact an agreement between Mr Galdeano and the appellant as co-owners of the trade mark and by virtue of his control of the respondent, the necessary knowledge could be imputed to the company.

(b) The application for registration of the trade mark was made without the knowledge or consent of the appellant and the effect of this deprived the appellant of the benefit of registration in New Zealand.

The Court therefore concluded39 that the application for registration of the trade mark was conduct that fell short of reasonable standards of commercial behaviour and that this amounted to bad faith,40 effectively based on the formulation in Harrison’s Trademark Application41 – the applicant’s actions, when viewed through the perspective of persons adopting proper standards, were wanting.

This is a good illustration of a case falling at an evidential hurdle and then, through the introduction of new evidence on appeal, overcoming that problem. In principle, the proposition that a co-owner of a trade mark should not be able to apply for a mark to the exclusion of other co-owners is relatively uncontroversial. The problem, of course, was establishing this through reliable evidence. The Assistant Commissioner was clearly entitled to reach the conclusion she did, on the evidence before her. Equally, on appeal, the High Court was right to reverse that decision, not because it was wrong, but because the earlier evidential uncertainty had been remedied. This illustrates that these cases tend to turn on the evidence.

In Hansens Beverage Company v Bickford’s Australia Pty Ltd,42 the Assistant Commissioner had earlier rejected Hansens’ arguments that the respondent (Bickfords) was not entitled to register Monster Energy for energy drinks. She found that deception or confusion was unlikely because Hansens had not established there was sufficiently substantial awareness in the relevant market of its mark.

Subsequently, Hansens received a letter from a New Zealand importer and merchant indicating they had sold its product between 2002 and 2004 and had temporarily halted such imports when issues had arisen as to who actually owned the mark. On appeal, Hansens applied to introduce this evidence on the basis that it was both new and cogent. The Court accepted that, even though the jurisdiction is to be exercised sparingly, taking into account the cogency, relevance and possible effect of the evidence on the result,43 it should be admitted. The dispute was settled shortly thereafter.

Again, we see the importance of the evidence.
Bad Faith – A Matter of Proof

Lacoste

In *Lacoste v Crocodile International Pte Ltd.*, Lacoste successfully appealed against the Assistant Commissioner’s refusal to allow registration of its CROCODILE trade mark. While Lacoste had for many years sold clothing branded with a crocodile device, Crocodile International opposed registration on the basis of its reputation in Asia in its own Crocodile mark.

Crocodile International relied on spillover into New Zealand. That evidence in turn was based significantly on migration and visitor statistics. Simon France J accepted that there was clear authority that spillover alone can be sufficient to establish awareness, his Honour characterising the *Valley Girl* and *Ivy League* cases as representing the highwater mark in this regard.

Even though spillover may be sufficient on its own, the Court looked at the evidence with a critical eye and was unable to accept that evidence from nine or 10 people is enough to establish, on a reliable basis, that residence in Asia would lead to awareness of the Crocodile brand. His Honour concluded that, while the overall migration figures looked significant, once properly analysed it became apparent that less than 2,000 migrants were from Singapore and only 7,500 from Malaysia and that these were the two territories in which Crocodile International’s main reputation lay.

Ultimately, the Judge endorsed Lockhart J’s misgivings about relying too much on visitor statistics to establish reputation and concluded:

> More generally, there is very little one can do with bold visitor statistics. It is not known what the purpose of the trips were, nor how likely it was that the visit would leave the visitor with a sufficient awareness of Crocodile International brands such that they would bring it back to New Zealand and associate a crocodile with the Asian brand. There was evidence that Crocodile International advertised on the main travel map that visitors to Singapore are likely to have. However, the advertisement consisted only of the word Crocodile without any reference to what it related to.

The High Court found that Crocodile International had not discharged its evidential onus to establish there was awareness or cognisance of its marks with a substantial number of persons in the relevant New Zealand market. This, I suggest, is an illustration of the need for clear and convincing evidence to establish the ground. It also indicates that where evidence is lacking in specificity the claim is unlikely to succeed.

That, however, was not the end of it because a challenge arose as to whether, as part of a proprietorship attack, as applicant, Lacoste had the necessary intention to use the mark. Having been rather critical that the dispute had become “unnecessarily complex”, his Honour differed with the Assistant Commissioner that reference to CROCODILE on swing tickets merely amounted to a descriptive reference to the style of the polo shirt. He went on to observe it was entirely premature to raise issues of this nature at the application stage, and to load too much into the concept of intention to use.

His Honour then considered the number of different uses of the crocodile logo and concluded:

> The existence of these other uses of the word reinforces that the revocation process is the proper time at which to hold this sort of detailed inquiry. It is otherwise an impossible burden for an applicant at the application time, and unfair because “who knows” what use will have occurred subsequent to the gaining of the registration. Further, the context of any such use will be important, again an inquiry that must await actual use.

> What can be said at the time of this application is that there was no bad faith in the application, the company had a history of using CROCODILE on the swing tag, and a history of using the word “crocodile” in various forms in its advertisements. It plainly intended to use the word on the tag in New Zealand. Crocodile is a concept that has long been associated with the applicant. Given these factors, in my view no serious issue arose in relation to proprietorship.

In my view, this shows that, in the absence of clear evidence of bad faith or lack of proprietorship, a party is unlikely to establish its grounds during the application stage. If Simon France J’s guidance is to be followed, these matters may be better raised during subsequent revocation proceedings particularly if there are heavily disputed questions of fact.
The latest and arguably most relevant decision in this discussion is Zoggs International Limited v Sexwax Incorporated.\(^57\) In a decision delivered on 20 June 2013, Simon France J addressed a number of the issues discussed above.

The appellant, Zoggs International, is an Australian company. It has traded since 1992. It originally made swimwear goggles which it sold under the Zoggs name. That name derived from an abbreviation of the word – “goggs”. Zoggs International expanded into swimwear under the label “Zoggs Togg’s”. It registered that mark in various countries, including New Zealand. However, the registration lapsed due to an oversight. Notwithstanding this, it claims to be the largest leisure swimming brand in Australia, New Zealand and the United Kingdom.

The respondent is owned by a Frederick Herzog III, aka Zog. Mr Herzog had used the name Zog for 38 years, principally as the name for the world’s largest selling board wax – “Mr Zog’s Sex Wax” as depicted in the logo:

The Assistant Commissioner upheld Sexwax Inc’s objection to Zoggs International’s application on the basis, \(\text{inter-alia}\), that it was made in bad faith.\(^58\) The basis for this finding was that despite assurances by Zoggs International that ZOGGS was to be used only on swimming goggles and that it would not be used in the surf category for wetsuits, casual wear or other surf wear; it reneged on that promise. This, the Assistant Commissioner found amounted to bad faith.

Simon France J firmly disagreed with the Assistant Commissioner, stating:

"The appellant’s first challenge is to the conclusion that Mr Herzog did not know until 2007 of the development of Zoggs Togg’s, the sale of swimwear, and the intended use of ZOGGS. Mr McConnochie had deposed that there were discussions in 2004, and it is submitted by the appellant that it was not open to the Assistant Commissioner to conclude on the papers that Mr Herzog’s recollection was to be preferred. … I do not consider it was open on the untested evidence to prefer Mr Herzog’s view. 60"

His Honour then considered whether further evidence should be allowed in the appeal to verify what was said in a draft agreement exchanged between the parties at the relevant time:

"Resolution of the dispute does not require a review of authorities. The context is a finding of bad faith, which remains a serious allegation. The draft agreement should have been included in the first place, but there can be no prejudice to the respondent in its inclusion now. It stands on its own and does not necessitate any further evidence. It is a document known to the respondent. 61"

Ultimately, the Court concluded that the finding of bad faith was flawed and could not stand on the evidence before the Hearings Officer, stating:

"The evidence does not support a conclusion that there was any sort of arrangement between the parties of which the present application might be a breach. Indeed, it has been difficult, in my view, to actually identify exactly what the bad faith is alleged to be. The ruling under appeal does not"
Bad Faith – A Matter of Proof

clearly articulate what it is. Mr Robb said it was a history of saying one thing and doing another. In particular: saying that there was no interest in the surf market, yet seeking unqualified registrations in class 25; and, marketing some products in a way that is relevant to the surfing market, such as advertising board shorts, despite disclaiming such an interest.

In my view, the evidence does not establish the type of arrangement needed between the parties before it could make the trade mark application one made in bad faith. At most, the evidence shows communications made between the parties on which there has been no reliance, or alteration of position, other than the original 1992 registration. The evidence falls well short of making good on an allegation of bad faith and I accept Mr Upton QC’s submission that it should not have been made. 62

Allegations of bad faith are often serious. The expectation is that reliable and cogent proof is put forward to justify such allegations. As Simon France J put it:

The fact that the bad faith test may be satisfied by something less than dishonesty should not mask the fact it remains a serious allegation, requiring clear evidence and careful analysis. Ultimately, the standard of proof is the balance of probabilities but I consider there remains value in the words of Mr Thorley QC, the Appointed Person, in Royal Enfield Trade Marks [2002] RPC 24 at [31] where of a bad faith allegation he observed:

It should not be made unless it can be fully and properly pleaded and should not be upheld unless it is distinctly proved and this will rarely be possible by a process of inference. 63

The salutary words remain, for now, the last word on the topic. 64

There is, however, another aspect worth mentioning — proof of reputation and goodwill in an Australasian context. In Muzz Buzz Franchising Pty Ltd v JB Holdings (2010) Ltd,65 the High Court determined a dispute between a local takeaway coffee outlet, trading under the name Jitta Buzz, which was said to be a direct copy of an Australian brand – Muzz Buzz. While bad faith was not specifically in issue, the bona fides of the defendants was.

In finding for the Australian plaintiff, Toogood J discussed66 the relative ease of spillover of Australian goodwill and reputation into New Zealand:67

Cooke P sounded a note of caution, however, in recognising that in the internationalisation of trade there was possible confusion of names as more situations arose in which traders who had adopted business names bona fide in the territories where their business began may encounter similarities of names legitimately used elsewhere. But the Judge said that there were two exceptions to this proposition. First, in the dishonest or other wrongful conduct of a person in making a name or mark deceptive, and second where someone was setting up a business for the first time with a mark deceptively similar to one already in use and having a truly distinctive reputation in the same market.

His Honour then went on to state that:

This discussion of the globalisation of the marketplace, particularly in relation to New Zealand and Australia, preceded the creation of the internet and global access to the Web. In 2013, it can hardly be doubted that New Zealand and Australia may, for the purposes of enforcing intellectual property rights, be regarded as one market. … Nearly three decades on, there can be no doubt that the two markets are even more integrated now.

In those circumstances, not much in the way of business activity would be required to establish the goodwill and reputation of Muzz Buzz in New Zealand. 68

These findings will no doubt be of assistance to plaintiffs who allege bad faith conduct by local operators who filch well-known Australian brands.

Conclusion

What emerges from a review of the recent case law in this field is that, while bad faith provides proprietors with a flexible and effective remedy against opportunistic or otherwise questionable conduct by competitors and others, there are limitations on what can be achieved. It is clear that, while the remedy is an effective one, because of the serious nature of the allegations, in certain situations akin to a claim of fraud, explicit pleadings and cogent evidence is needed to support the ground.

Mareva and Anton Piller Orders are often referred to as the Law’s nuclear weapons. 69 They provide judges with a powerful procedural tool to freeze and permit searching and seizure of assets, documents and information. Detailed preconditions and
safeguards are now a well-established part of the practice. Judges carefully scrutinise these applications to ensure there is a fair balance between a party seeking relief and those the subject of any orders. A balance also needs to be struck between counsel seeking wide-ranging orders and the judicial body making such orders or granting the requisite relief.

The bad faith jurisdiction is similar in some ways. While it may offer the best, and in some cases only effective, avenue to challenge opportunistic or dubious conduct, before embarking on that particular route it is worth pausing to ask whether the allegations can be distinctly identified and proved. Otherwise, the benefits may prove to be more short-lived and illusory than anticipated.

1 http://www.duhaime.org/LegalDictionary.aspx
3 Hilgenberg v Northup 134 Ind. 92, 33 N. E. 780.
5 Gromax Plasticulture Ltd v Don & Low Nonwovens Ltd [1999] RPC 367.
7 At 442. These observations were not disturbed on appeal to the Privy Council.
8 Preventing the registration of matter “the use of which would be contrary or law or morality or would otherwise be disentitled to protection in a court of justice”.
9 In Re Registered Trade Mark Yens (1951) 82 CLR 199 Williams J at [202].
11 [2012] NZHC 2563 at [43].
12 At [49].
14 Preventing the registration of matter “the use of which would be contrary to law or morality or would otherwise be disentitled to protection in a court of justice”.
16 A local New Zealand distributor knowingly trying to misappropriate its overseas supplier’s mark.
18 At [19].
20 Council of Ivy Group Presidents v Pacific Dunlop (Asia) Limited HC Wellington AP 42/00, 3 October 2000, John Hansen J.
21 At [20].
22 Up Company v OT Limited (1947) 75 CLR 203 at 211.
23 At [51].
24 At [52].
25 [1999] RPC 367 at 369. This case involved a joint enterprise situation.
26 At [53].
27 At [56] and [57].
28 Under the current 2002 Trade Marks Act, the question may now arise during examination (under s 17(2) it is an absolute ground for refusal) during opposition under s 47 and as part of an invalidity attack through an application for a declaration of invalidity under s 73.
Section 117 of the Patents Act 1990 (Cth) provides as follows:

117 Infringement by supply of products

(1) If the use of a product by a person would infringe a patent, the supply of that product by one person to another is an infringement of the patent by the supplier unless the supplier is the patentee or licensee of the patent.

(2) A reference in subsection (1) to the use of a product by a person is a reference to:

(a) if the product is capable of only one reasonable use, having regard to its nature or design – that use; or

(b) if the product is not a staple commercial product – any use of the product, if the supplier had reason to believe that the person would put it to that use; or

(c) in any case – the use of the product in accordance with any instructions for the use of the product, or any inducement to use the product, given to the person by the supplier or contained in an advertisement published by or with the authority of the supplier.

As can be seen, s.117 is concerned with infringement by the supply of a product. Of course, where the claims of the patent are product claims there is limited need to bother with s.117 for infringement because the definition of “exploit” in the Act includes to “make, hire sell or otherwise dispose of the product” and hence the supply of the claimed product by one person to another, being at least a disposal of the product, would be an act of exploitation within the exclusive rights of the patentee under s.13 and thus an infringement.

Section 117, however, has particular work to do in the case of method claims. The opening words of s.117 (1) provide that one enters the territory of the section “If the use of a product by a person would infringe a patent”. To test whether or not that may be so one looks to paragraph (b) of the definition of “exploit” in Schedule 1 which provides that, where the invention is a method or process, “exploit” includes to “use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use.” Paragraph (a) then includes use of the product.

Thus, where a patent claim defines an invention in a new method of use of a product (e.g. use of a product such as a pharmaceutical compound to treat a particular condition) or the patent claim defines an invention in terms of a new process which makes a product (the use of which product would fall within the definition of “exploit” in paragraph (a)), then s.117(1) may be engaged.

Turning then to subsection (2), one can readily see the rationale for, and application of, paragraphs (a) and (c). A person who supplies a product the only reasonable use of which is an infringing use is generally seen by most people as an infringer. So too is a person who supplies a product with instructions for use in an infringing way.

Difficulties arise, however, in respect of paragraph (b), which makes it an infringement to supply
a product to another person if the supplier has reason to believe that the person would put it to an infringing use and the product is not a "staple commercial product". Thus, s.117 (2) (b) contemplates that a person might supply a staple commercial product knowing full well that the recipient will use it in an infringing way and yet the supplier will not be liable as an indirect infringer.

Why should this be so? The answer I think must be that in respect of staple commercial products the legislature has taken the view that the burden should not be placed on the supplier to police the use of the product once it leaves his or her hands. However, the *quid pro quo* is that the supplier is obliged not to encourage infringing use (paragraph (c)). This arrangement might be said to provide a fair balance between the rights of the patentee and the rights of people involved in everyday commercial activities.

**Staple Commercial Product**

The question which obviously arises from all that is, what is meant by "staple commercial product"? Happily, the High Court has provided assistance in the interpretation of that expression. *Northern Territory of Australia v Collins* (2008) 235 CLR 619 dealt squarely with the issue. The facts and course of the litigation were as follows (taken from the head note):

Vincent and Maryanne Collins were the joint registered owners of an Australian patent for methods of producing essential oils from cypress pine timber for use in aromatherapy. The Northern Territory granted four licences to the Australian Cypress Oil Co to enter various plantations to take and harvest cypress pine timber. Mr and Mrs Collins commenced proceedings against the Northern Territory in the Federal Court for alleged contributory infringement under s.117 of the Patents Act 1990 (Cth). The Northern Territory contended, amongst other things, that the timber was a staple commercial product within the meaning of s.117(2) (b) of the Act. The Northern Territory appealed to the High Court from the judgment and orders of the Federal Court by special leave granted by Kirby, Hayne and Crennan J.

In the High Court at [144] Crennan J stated as follows:

The legislative intention evinced in the statutory language, and apparent also from the relevant secondary materials, is to except from liability, the supply of products with significant non-infringing uses, or as it has been put in relation to the American provisions, products with lawful as well as unlawful uses. A preference for such a construction has also been essayed in respect of s.60(3) of the Patents Act 1977 (UK) by a writer who states "the intention is to stop material particularly adapted to the use of an invention being made available to a putative infringer, but that material which has and, importantly, had, a general purpose of more than de minimis utility, falls within the [UK] exception." The phrase "staple commercial product" means a product supplied commercially for various uses. This does not mandate an inquiry into whether there is "an established wholesale or retail market" or into whether the product is "generally available" even though evidence of such matters may well be sufficient to show that a product is a "staple commercial product". The relevant inquiry is into whether the supply of the product is commercial and whether the product has various uses. Leaving aside the supply to ACOC, the timber here was supplied on commercial terms to various licensees for a variety of non-infringing uses. Accordingly, the Northern Territory is protected by the limitation in s.117(2)(b).

One can easily appreciate that the millable timber in the *Collins* case might be regarded as a "staple product" from one's primary school geography. Uncertainty arises, however, in respect of products in a more advanced state of manufacture, such as pharmaceuticals. The point is currently controversial and was one of the matters agitated before a five member Full Court of the Federal Court in *Apotex v AstraZeneca AB* (No 4), on appeal from the decision of Jagot J reported at (2013) 100 IPR 285.

Returning to *Northern Territory v Collins* (supra), Hayne J agreed with Crennan J that a staple commercial product is one that is supplied commercially for various uses (see [41]). His Honour stated at [42] ff.
Indirect Infringement in Australia through the Supply of Products
(with Emphasis on Section 117 and Some Recent Cases)

The phrase “staple commercial product” must be read as a whole and it must take its meaning from the context in which it sits, in particular, it is to be recalled that s.117 creates a liability in a supplier of a product where the act of supply would otherwise not infringe a patentee's rights. Section 117 imposes liability on the supplier if use of the product supplied by the person to whom it is supplied would infringe.

In this setting “staple commercial product” should not be given a narrow meaning. To do so would expand the classes of supply which are reached by s.117, thus expanding the rights of the patentee where, by hypothesis, the act of supply is not otherwise an infringement of the patentee's monopoly.

Then, at [48] his Honour stated:

To read “staple commercial product” as identifying a product that is supplied commercially for various uses does not reflect the notion of principal or chief importance sometimes conveyed by the adjective “staple”. But as Crennan J concludes, “staple”, used adjectivally in the compound expression “staple commercial product”, should not be read as directing attention to the economic significance of the product concerned. Rather, it should be read as inviting attention to the variety of uses to which the product both can be, and is in fact, put. It is that variety of uses which, when the product is supplied commercially, makes the product a staple commercial product.

And then at [50]:

... the question posed by s.117(2)(b) is: to what uses is the product in fact put? If it is in fact supplied commercially for various uses it is a staple commercial product and the supplier of such products is not to be held liable as an infringer because the person to whom the product is supplied uses it in a way that infringes, even if the supplier has reason to believe that it would be used in that way. Reading the provision on this basis would bring within the reach of s.117(2)(b) the supply, for example, of a product previously traded for only one use where the supplier has reason to believe that it will be used for a new and infringing use. It would leave beyond the reach of section 117 the supply of a product that has previously been traded for various uses unless the supplier falls within s.117(2)(c) — where the supplier instructs or induces a particular use which infringes, or advertises the product for that use.

Gummow and Kirby JJ accepted that millable timber was a staple commercial product because it has a variety of uses without any real elaboration on the concept and Hayden J agreed with Crennan J.

In Apotex v AstraZeneca AB (No 4) (supra), Jagot J held that although the compound rosuvastatin could be used for various things other than the treatment of hypercholesterolemia at a 5-10mg starting dose, which was the claimed use, it was not a staple commercial product because its other uses were of the same class as the claimed use, namely the treatment of diseases of a particular kind in humans. As mentioned below, however, her Honour found that s.117(2) (b) was not satisfied for other reasons. These are some of the points on appeal and the decision of the Full Court is pending.

Reason to Believe

Another controversial issue about s.117 (2)(b) is the degree of certainty required by a supplier as to the subsequent use to be made of the product by the person supplied for it to be said that the supplier had “reason to believe that the person would put it to that use”.

A Full Court of the Federal Court in Generic Health Pty Ltd v Otsuka Pharmaceutical Co Ltd (2013) 100 IPR 240 had to consider this issue on appeal from the grant of an interlocutory injunction by Yates J. The facts were as follows (again with thanks to the headnoter):

Otsuka Pharmaceutical Co Ltd (Otsuka) was the patentee of Australian Patent No 2005201772 which was titled “Substituted carbostyril derivatives as 5-HTIA receptor sub-type agonists” (the 772 patent) and Australian Patent No 2002226752 with the same title (the 752 patent). The 772 patent was a divisional application of 752 patent's complete application. Both patents claimed a priority date in January 2001 and claimed the use of a carbostyril compound (relevantly, aripiprazole) for the production of a medicament for treating a patient. Aripiprazole was used for the treatment of schizophrenia and other disorders of the central nervous system said to be associated with the 5-HTIA receptor. A packaged tablet formulation containing aripiprazole was marketed by Bristol-Myers Squibb Co, by its Australian subsidiary, under licence from Otsuka under the name “Abilify”. A number of Abilify products were registered on the Australian Register of Therapeutic Goods (the
At [105] Bennett J stated:

Generic Health Pty Ltd (Generic Health) had obtained registration of a number of aripiprazole products on the ARTG. The products that were registered under the ARIPIPRAZOLE GH label (the GH products) were registered for the first of the three indications for which the Abilify products were registered that is the treatment of schizophrenia including maintenance of clinical improvement during continuation therapy. Otsuka subsequently sought interim relief on the basis that Generic Health's intended sale of the GH products would infringe claims 1 and 7 of the 772 patent and claims 1-3 and 8-10 of the 752 patent. Generic Health cross-claimed seeking revocation of both patents. The primary judge found that there was a prima facie case that claim 7 of the 772 patent would be infringed by the proposed supply by Generic Health of the GH products. His Honour also found that there was a prima facie case that the sale of GH products would constitute infringement of claim 7 under s 117(1) of the Patents Act 1990 (Cth) (the Act), based on s 117(2)(b) of the Act. Generic Health then sought leave to appeal from the interlocutory injunction that was consequently granted.

At [105] Bennett J stated:

The reasoning in Grimme [Grimme Maschinenfabrik Gmbh and Co KG v Scott (2010) 89 IPR 631, a decision of the English Court of Appeal under the equivalent provision, section 60 (2) of the Patents Act 1977 (UK)] suggests that section 117(2)(b) cannot apply where there is unlikely, freak or maverick use. Such use may not be a form of “known use”. Otherwise, s.117(2)(b) may have too extended or expansive a reach ... It would not apply, in my view, if the use by the person to whom supply is made is, without more, contrary to instructed use from the supplier in the absence of further evidence to establish that the supplier had reason to believe that such use would be made. It is not sufficient if the supplier had reason to believe that the person might put the product to the infringing use. Something more is required, as is made clear by the use of “would” rather than “may” or “might” in the subsection.

[106] The proper construction of s.117(2)(b) must be that there is a reasonable belief of a significant likelihood that a person would put a product to that use. This construction is assisted by the use of the words “reasonable belief”, rather than “knowledge”. A person may have a reasonable belief that an event will or would happen without having knowledge that the event will or would necessarily happen. A reasonable belief that an event would happen rises from a belief in the likelihood of that event. That likelihood must be significant. A belief that an event is of a low likelihood would amount to a reasonable belief that an event may happen. The word used by section 117(2)(b) is that a person would put the product to that use. (emphasis added).

Emmett J seemed to regard the test as a little more objective. For example for paragraph [35] his Honour was concerned to know whether there were facts known to Generic that would lead a reasonable person to believe that the GH products would be put to an infringing use. It was not to the point that Generic, through its relevant officers, did not actually have such a belief. The question was whether there was material before the primary Judge that could support a finding that a reasonable person in the position of Generic would have reason to hold such a belief.

Greenwood J also supported an objective test (see for example paragraph [229]).

In the event, the Full Court did find, at the interlocutory level, that s.117(2)(b) was satisfied and upheld the order for the interlocutory injunction. On the other hand, in Apotex v AstraZeneca AB (No4) (supra), Jagot J held that the generics did not have reason to believe that generic rosuvastatin would be used in an infringing way even though there was a risk of that happening and thus found s.117(2)(b) was not satisfied. Which all goes to show that it just depends on the facts.

In Apotex Pty Ltd v Sanofi-Aventis Australia Pty Ltd (No 2) (2012) 96 IPR 185, a Full Court of the Federal Court did not need to deal with the question of “staple commercial product” and decided that the “reason to believe” requirement of s.117(2)(b) was satisfied on the facts. The patent was for a method of treating the skin disorder psoriasis by administering an effective amount of leflunomide. The alleged infringer sold its generic product with an indication for use in the treatment of psoriatic arthritis. When the generic product is prescribed by a rheumatologist for the treatment of psoriatic arthritis it has a beneficial effect on the psoriasis suffered by the arthritic patient. The evidence was that patients with psoriatic
Indirect Infringement in Australia through the Supply of Products (with Emphasis on Section 117 and Some Recent Cases)

arthritis nearly always also have psoriasis. The rheumatologist, however, is seeking to treat the psoriatic arthritis and is not particularly interested in the psoriasis. The Full Court found there was no primary infringement because it was necessary for the rheumatologist to have the object of treating psoriasis before the use fell within the claim and accidental or unintentional beneficial effect on psoriasis was not enough.

However, the Court found indirect infringement under s.117(2)(b) and s.117(2)(c) on the basis, inter alia, of the following statement in the product information document: "[generic] leflunomide is not indicated for the treatment of psoriasis that is not associated with manifestation of arthritic disease". That was taken to mean generic leflunomide is indicated for the treatment of psoriasis that is associated with manifestations of arthritic disease and the Court thus held that this was a direction under s.117(2)(c) and the foundation for a "reason to believe" under s.117(2)(b). It seems somewhat odd that there was no primary infringement by the treating doctor giving a patient leflunomide for the treatment of psoriatic arthritis which incidentally treats psoriasis because the doctor’s intention was simply to treat the arthritis and yet there was nevertheless indirect infringement under ss.117(2)(c) and (2)(b).

An appeal in this case has been heard by the High Court and judgment is pending.¹

I have not focused much on the other means of indirect infringement because s.117 is the currently fashionable topic but, of course, one might infringe under s.13 if one authorises another person to exploit the invention and at common law one may of course also infringe as a joint tortfeasor in circumstances where one participates in a common design to infringe with the primary infringer or one aids, abets, counsels or procures infringement by the primary infringer. There is obviously a fair degree of overlap between s.117, s.13 authorisation, and joint tortfeasorship.

¹ On 4 December 2013, the High Court gave judgment allowing the appeal on this point: Apotex v Sanofi-Aventis (2013) 103 IPR 217.
Repealing the Parallel Importation Restrictions for Books: The Case for an “Author Offset”

Introduction

The Policy Goals of Maintaining Parallel Importation Restrictions in the Market for Books

In 2003, in continuing the trend of removing parallel importation restrictions (PIRs) imposed by the Copyright Act 1968 (Cth), PIRs in relation to, inter alia, non-infringing literary works were slated to be repealed. However, citing concerns from the Australian book publishing industry and authors alike, the Government at the time decided not to repeal the PIRs in relation to physical books, because such a removal potentially undercut the value of Australian-authored books by diverting royalties from authors; thus reducing the economic incentive to further create literary works. However, there are significant flaws to that argument.

First, the PIRs apply equally to Australian and non-Australian authors, as Australia is precluded from discriminating based on nationality per its obligations under the Trade Related Aspects of Intellectual Property Agreement (TRIPs). Secondly, it is often an intermediary (typically a trade publisher) that holds the rights to a book, not the author. Thirdly, most of Australia’s larger trade publishers are local arms of foreign companies, with British publishers continuing to dominate the supply of books to the Australian market through subsidiaries or exclusive distributors. Fourthly, the Australian Competition and Consumer Commission (ACCC), in a submission to the National Competition Council, found that “restrictions on parallel imports do nothing to protect domestic industry; they simply provide the domestic rights holder with an exclusive right to import”, thus preventing the thriving of a “grey market” for imported, legitimate (i.e. non-infringing) copies of books published overseas.

And finally, there is a wealth of resources written on PIRs and its effects on market efficiencies that debunk the idea that PIRs are necessary in order to incentivise creative efforts.

In the second part of this article, I will outline some of the basic concepts and reasoning behind why I believe removing PIRs under the Copyright Act 1968 (Cth) with respect to “atom and molecule” books, as a matter of policy, would be beneficial to Australian authors and the publishing industry. I will analyse the detrimental effects that PIRs generally have on market efficiencies; briefly canvass the relationship between parallel importation and the concept of “exhaustion”; explain why I am adopting the view that, in the Australian context, “international exhaustion” is preferred to “national exhaustion” (including how the competing regimes apply in Australia); and conclude that the anti-competitive effects on intra-brand competition created by PIRs outweigh the pro-competitive effects on inter-brand competition, particularly with respect to physical copies of books.

In the third part of the article, I will examine the effects that technology has had, and will continue to have, on products embodying copyright works – canvassing both physical and digital copies of books – and showing the inadequacies of PIRs in maintaining discrete markets based on geographical territories. The traditional models of market segmentation and third-degree price discrimination across national territories are under significant pressure from the combined forces of globalisation, technology and trade liberalisation.

With the proliferation of e-commerce, the substantial migration of producers and consumers to virtual marketplaces, and the availability of virtually free real-time information, global price differences are becoming more transparent, with Australian consumers taking note that the costs associated with transporting products to Australia are generally less than the retail price differentials between the two territories. This is evident by the fervor with which consumers have taken up purchasing books online, such as through Amazon or The Book Depository. In the consumer’s mind, Australian-published books arguably compete with all other books, irrespective of any patriotic allegiances to Australian-themed or Australian-
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authored books. The substantially lower prices that such online stores offer in comparison to Australia’s oft-maligned “monopoly” prices, combined with the exceptions afforded to individual purchasers under the Copyright Act 1968 (Cth), have effectively made PIRs redundant for protecting Australian authors and books. Finally, the manufacturing costs for books are high compared to the selling price, yet the writer ends up with relatively little of the proceeds. Accordingly, there is sympathy both on the part of creators and consumers for a new way of doing business. The internet – omnipotent and ubiquitous – holds the promise. This article, however, will not duplicate the Productivity Commission’s (PC’s) findings on PIRs under the Copyright Act 1968 (Cth) for literary works. However, by way of background, the PC’s findings and recommendations were criticised for not actually proffering any workable solution, for example, making the cursory suggestion that some sort of “subsidy” be introduced, which was not elucidated further nor was received well by authors and publishers. However, I believe that there is some merit in that idea: a direct subsidy to authors would indeed provide a greater incentive to create further works than continuing to protect market segmentation through a mechanism of PIRs.

As Landes and Posner highlight, if the fixed costs of intellectual property are high, the marginal costs are low, and the costs of duplication are slight (as is arguably the case with books), “then in the absence of intellectual property rights either the intellectual property will not be created or the government may have to finance it through a system of grants or rewards to writers and inventors”. Obviously, there is no absence of intellectual property rights in Australia. However, given the costs of duplication being very slight (particularly in the case of e-books), the practical effect is that certain IP rights may as well be treated as absent.

Thus, in the fourth part of the article, I will attempt to proffer a solution to the debate surrounding PIRs with respect to physical books, namely, that PIRs should finally be repealed and in its place introduce a tax rebate as an alternative mechanism to achieving the policy goal of supporting Australian authors and literature. The proposed tax offset is modelled on the Producer Offset provisions under Div.376 of the Income Tax Assessment Act 1997 (Cth), as it applies to producers and filmmakers in the Australian film and television industries. I suggest that Australian authors would benefit greatly from such a scheme, much like Australian producers and filmmakers have benefitted since the introduction of the Producer Offset in 2007/2008.

Removing PIRs as a Matter of Competition Policy

Market Segmentation and PIRs

Copyright law is steeped in the tradition of territoriality and market segmentation. With this traditional business model of market segmentation and “third-degree price discrimination based on perceived differences in elasticity of demand across discrete national territories”, copyright holders can potentially increase total revenue by charging higher prices in countries where the elasticity of demand is lower. Studies have found mixed results for uniform pricing versus price discrimination – depending on the circumstances, either discriminatory pricing or uniform pricing may be more beneficial – however, it has been argued that price discrimination (or price differentiation) can indeed help selected consumer groups and raise social welfare, for example, offering student or senior discounts. Further, the practical or relative price point for one market is not necessarily the same as another. Thus, by reducing costs to certain markets and being able to salvage large development costs, price discrimination has the potential to improve welfare and increase consumption.

However, third-degree price discrimination does not work effectively if “territorial product arbitrage” occurs. An example of territorial product arbitrage is parallel importation – a practice that is becoming increasingly “rampant in our globalised, e-commerce, eBay world”. Rights-holders therefore have an incentive to keep these markets demarcated and to dissuade importers from introducing cheaper, non-infringing/non-pirated versions sourced from other markets, especially if they want to continue charging different prices in different markets for essentially the same product. Understandably, these post-sale controls on distribution are unwelcomed by consumers because they segment the international market by raising prices, reducing choices, or, at the extreme end, entirely preventing the purchase of a product. Conversely, parallel importation through grey markets offers consumers greater options and reflects the principles of globalisation and free trade.
In short, the arguments for and against PIRs are often difficult to prove or justify one way or the other. However, the case in favour of parallel importation often becomes compelling to consumers in countries that are net importers of copyright material and where the price differentials are persistent. While parallel importation is generally a boon to consumers, rights-holders oppose this form of arbitrage because they lose revenue by not being able to effectively utilise third-degree price discrimination. But should rights-holder be allowed to? Having authorised the reproduction of a book in one country, should the author’s (or rather trade publisher’s) control over the further distribution of that book be “exhausted” in all other countries, or should they be able to prevent those (legitimately produced) reproductions from being imported into another country, where there has been no direct exhaustion of intellectual property rights (if that territory affords such protection)? Publishers can only combat parallel importation if their intellectual property rights have not yet been exhausted. Thus, the question of the exhaustion of intellectual property rights underpins the issues of parallel importation and PIRs.

Exhaustion
The right to control the distribution of goods legitimately embodying intellectual property rights is said to have been exhausted once the genuine goods are sold, or ownership is otherwise transferred – for example, by gift – by or with the consent of the rights-holder. The how, when, and why an intellectual property right exhausts is subject to numerous factors and the answers to these questions are found within the legal system of the nation that issues or creates the property right. It can also vary according to what intellectual property right is being asserted: patent, trademark, copyright, design or some other intellectual property right, which inevitably creates numerous problems, most evident in products that contain many types of intellectual property and are placed into international markets. Modern discourse generally refers to three major regimes that states employ to determine when rights exhaust:

• “International exhaustion” – sale or disposition of the goods embodying the intellectual property in one country extinguishes the right to control distribution of those particular goods everywhere.

• “Regional exhaustion” – exhaustion is limited to a defined geographical region, for example the European Economic Area.

• “National exhaustion” or territoriality – the right to control distribution is extinguished only within the country where the goods were sold (or otherwise disposed of).

Trade Related Aspects of Intellectual Property Agreement
The starting point for any discussion on exhaustion is that the major multilateral international treaties do not impose any obligations about parallel imports, PIRs or exhaustion (international or otherwise) – bilateral agreements between particular countries, however, may contain specific obligations. Article 6 of TRIPs provides:

Exhaustion
For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

Although TRIPs attempted to address exhaustion of rights and parallel importation, in the end, it took a hands-off approach and specifically excluded dispute resolution settlements on the topic, reflecting the inability of the international community (much like domestic stakeholders) to come to an agreement. However, Article 6 leaves members of the World Trade Organization free to decide their own policies about exhaustion or parallel imports.

National Exhaustion and International Exhaustion in Australia
Many intellectual property owners favour “national exhaustion” or geographical market segmentation, which in economic and antitrust/competition terminology, as discussed above, is a form of third-degree price discrimination. Conversely (or perhaps even inversely), intellectual property users and importers favour “international exhaustion”, for the simple reason that the free movement of goods embodying intellectual property creates competitive markets, and in turn keeps prices down. Therefore, the principle of national exhaustion is typically favoured by the supporters of PIRs, whilst the principle of international exhaustion by the detractors of PIRs.
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The Australian copyright system, for example, is based on national exhaustion. However, through piecemeal amendments encouraging and furthering the practice of parallel importation, the exceptions are now so extensive that Australia has effectively allowed for a regime of international exhaustion, which varies by type of intellectual property, and even by product. The impetus for these changes was rights-holders’ use of market control to raise prices, and by competition regulators and policy makers eager to bring economic insights into the debate surrounding PIRs.

The present state of the law in Australia regarding parallel imports (focusing particularly on copyright) is as follows. First, it is important to note that individual consumers purchasing products embodying copyright works through their own means – for example, their Amazon account – are exempt from the restrictions on parallel importation under s.37 of the Copyright Act 1968 (Cth). Secondly, after exhaustive study by the Prices Surveillance Authority (PSA), the Government enacted legislation that allowed for the commercial parallel importation of sound recordings, but continued to prohibit the parallel importation of all other works and subject matter, subject to some exceptions.

Most “recently” in 2003, commercial parallel importation was permitted for computer software and electronic versions of books, periodicals, and sheet music. The amendments removing those PIRs were fought every step of the way. The 2003 amendments were described as “yet another piece of ideology masquerading as policy” and were passed only after amendments boosting up the enforcement provisions of the Copyright Act 1968 (Cth) to enhance protection against the importation of infringing copyright material. However, the restraint on parallel importing books under s.44A remains.

Currently, under s.44A of the Copyright Act 1968 (Cth) distributors of copyright material other than sound recordings must approach the licensed distributor of the product in Australia to obtain copies to sell or market. Books can only be (commercially) parallel imported in limited circumstances. The “30/90-day” rule, as it is known, allows importation of books not published in Australia within 30 days of overseas publication, and which the copyright owner fails to supply within 90 days of the initial request.

National Exhaustion/Pro-PIRs

In general terms, one of the basic justifications for PIRs is that the owner of the copyright in Australia needs a return on its investment of promoting the copyright material in Australia. The copyright owner is less likely to invest time and resources in creating and innovating if it runs the risk of cheaper versions of the same product being imported and sold in competition with the Australian copyright owner's product. Essentially, it is to prevent investment expended (in both producing and marketing) by domestic distributors and retailers from halting as a result of “free riding”.

Specific to the publishing industry, a publisher may be less willing to publish and promote a book by an Australian author if there is a possibility that cheap(er) copies of the book might be imported for sale into Australia. For example, this may happen if the owner of the overseas copyright in an Australian title is unsuccessful in its attempt to promote the book overseas and sells the book at a discount on the Australian market, where it is more likely to be popular. There were several arguments made by authors and publishers in favour of retaining PIRs. These included:

- Protection from import competition permitted publishers and retailers to expend money on promotion and advertising without fear of being undercut by importers and free riders with respect to promotional activities in Australia.
- Publishers could promote Australian authors by “cross-subsidising” or “cross-collateralising” the losses occasioned by publishing some Australian authors with profits made from other, more successful publications.
- The incentive to publish Australian authors in Australia would be reduced if publishers faced the threat of “remaindered” copies from low-cost markets being dumped on the Australian market.

As mentioned above, by allowing price differentiation based on different demand structures, more utility is derived throughout the global economy. As Conley points out, under a system of international exhaustion, firms would simply choose to distribute their product in markets that enforced PIRs. Thus, states adopting a system of international exhaustion (for example, Australia) would not receive that welfare. However, the biggest critique of a system of national exhaustion has been of the strictness of its ban on all parallel
imports. The hardline rule fails to balance and separate the pro-competitive benefits of grey market trading with the anticompetitive effects of market segregation.57

In response to the claims that a domestic publishing industry cannot survive, the New Zealand experience demonstrates otherwise: even with a fifth of Australia’s population, more than a third of publishing companies were actually established around the time of the removal of New Zealand’s PIRs.58 And despite concerns that removal of PIRs will simply leave the Australian publishing industry to the multinationals, the reverse occurred in New Zealand, its industry is now dominated by small, New Zealand-owned publishers.59

And finally, as the ACCC have repeatedly pointed out, “while legislative restrictions on imports of pirate and counterfeit goods are a necessary adjunct to the restrictions on the unauthorised reproduction of creative works, legislative restrictions on parallel importing are not justified by the traditional free rider concerns relating to intellectual property”.60

International Exhaustion/Anti-PIRs

The power to block parallel imports is a restriction on competition that gives intellectual property owners the power to practise international price discrimination against consumers in the import country. This geographical division of markets is used as an opportunity to extract unduly high profits from consumers and to protect inefficient practices.61 As the Explanatory Memorandum to the most recent round of parallel import reforms stated:

Studies over the last decade, in relation to books, sound recordings and computer software, have demonstrated that this power to control the distribution of imported copyright subject matter has enabled copyright owners to exercise market control. It has resulted, over time, in higher prices being charged to Australian consumers. The studies also show some inefficiencies resulting from this legal environment as it impedes competition or the threat of competition.62

For various reasons, the Competition and Consumer Act 2010 (Cth) is limited in its ability to prevent this from occurring.

Essentially, repealing the current PIRs will lead to a reduction in prices, and market forces will determine the optimal investment in Australian literature.63 The PSA also noted that any detriment to Australian authors may be partly offset by a general reduction in book prices brought about by greater competition and efficiencies in distribution: a fall in prices may lead to increased “demand, total revenue and royalties”.64 Thus, the gains to Australian consumers from price decreases would exceed the detriment to the local industry. These gains could be used to pay for direct subsidies to Australian authors and publishers (discussed further below) rather than permitting the present system to continue, which tends to benefit foreign publishers and authors.65

Similarly, the arguments concerning Australian culture are countered by the view that if Australian culture and industry are to receive a subsidy, this should take the form of transparent, direct subsidies provided to the industry and specifically targeted to achieve desired outcomes.66 Such subsidies should not be hidden under the guise of PIRs in order to distort the market and increase prices where the results of such subsidies cannot be clearly discerned.67 No further details of what and how such a subsidy would operate was proffered; but the proposed ‘subsidy’ in this essay would take the form of a tax offset, the details of which are discussed further below.

Related to the need for an incentive for sustainable investment is a concern for the development of Australian authors and artists, and the nurturing of Australian culture. This latter concern is greater in the case of books, musical works and sound recordings than in the case of purely functional items such as computer software.68 However, given that PIRs have already been repealed in the case of musical works, sound recordings and electronic copies of books,69 removing PIRs with respect to physical books would logically be the next step in the application of that policy.

As a matter of practicality, the current requirements of the 30/90-day rule are far too complex, and place authors at risks because they rarely have control over the place and timing of the publication of their work, or the supply of copies. Whilst it is true that authors could seek to include in their publishing contract undertakings by the publisher to: first publish in Australia, or publish within 30 days of first publication overseas; respond to orders for the book within seven days; and supply the book within 90 days unless it is out of print, however, this can be difficult to achieve. These undertakings are never offered by publishers in their standard form contracts, and authors are rarely successful in negotiating their inclusion.70
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Removing PIRs as a Matter of Practicalities: The Effects of Technology and the Internet on the Debate Surrounding PIRs

As discussed above, the TRIPs provisions on exhaustion serve as a momentary pause on the public international law front in terms of the complex policy debate over traditional “bricks and mortar” and tangible goods exhaustion.73 However, with the proliferation of e-commerce – both in the electronic mail order sense and digital sense – and the significant migration of a number of major sectors to the virtual marketplace, the debate has become much more complex as technology both enables and hinders the partisans of each point of view.74 Moreover, there has been no shortage of important treaty developments at the World Intellectual Property Organization, as well as significant political and legislative developments concerning digital exhaustion, briefly discussed below.75

PIRs developed in a world of conventional trading patterns where physical goods traditionally passed down a chain of exporters to importers to retailers to end-users. All of this looks very different in the modern age where the end user is easily placed in direct contact with the exporter (be it the manufacturer or creator) and where no physical object need cross a border for a work to be enjoyed by that end user. This effectively renders PIRs otiose as the debate shifts into the digital sphere.74 However, as Howard Knopf noted in 2001:

The entire history of intellectual property law has, until the last few years, been largely reactive to new technology. This has served well. Legislators have generally waited for stability and waited until they thoroughly understood the issues. While some developments seemed late in coming, there were few major errors or systemic sectoral market failures. The sky never fell. For the first time, however, legislators are arguably getting ahead of themselves. But even with the onslaught of public international and national laws, it is still futile to attempt to keep pace with the detailed development of technology. The technology and architecture of the internet in 1994 when the WTO agreements were adopted and even in 1996 when the WIPO Treaties were adopted seems now to be ancient history.75

Ironically, 2001 seems now to be ancient history. We are no longer merely poised on the edge of a market place of goods, services and information that is almost perfectly efficient, with no tariffs, and almost instant total dissemination of news, including prices.76 That time is here and now: little to no barriers to entry; auction mechanisms; automatic and instant interconnection of willing sellers and buyers; instant online payment mechanisms; near-instant delivery for anything that is digital; or next day service for most physical things made out of atoms and molecules. This, of course, is the internet now.77 Internet users will not be content with knowing about lower prices on a website abroad whilst being precluded from doing business there because of PIRs.78 This could not ring truer for the book industry in Australia (and abroad).

PIRs and E-Commerce (in the Mail Order Sense)

The phenomenal growth of direct order booksellers such as Amazon, The Book Depository, and Booktopia (to name but a few) has effectively bypassed the restrictions that the current PIRs might wish to impose. As Knopf rightly observes, such “e-tailers” actively support international shipments, with transparent freight costs and options (in some instances shipping is free),79 and even prepayment of applicable GST/VAT costs. These very large and efficient e-tailers can achieve significant inventory, warehousing and shipping efficiencies as against rival “bricks and mortar” booksellers, and even their own bricks and mortar divisions.80

An aggressive e-tailer can ship into a foreign territory with very little practical risk compared to a grey marketer operating from inside that territory. The e-tailer need not have any physical presence or business arrangements with any entity in the territory, other than directly with its online customers. Provided that the sale is direct to the reader and not in quantities that might raise an inference of further resale, those Australian consumers engaging in online ordering over the internet would have no difficulty in placing themselves outside the Copyright Act’s proscription regarding imports “for the purposes of trade”.81

Or, is a government prepared to take the political consequences of abolishing personal import “exceptions” that would effectively keep Amazon, The Book Depository, and Barnes and Noble out of Australia in the e-commerce field? Similarly, would the US government – an avid supporter of market segmentation/national exhaustion82 – also support measures that hurt some of its most successful exporters?83 Given the futility of attempting to preserve market segmentation in the internet era, the logical conclusion would be to repeal the
remaining PIRs in Australia with respect to books, particularly as technology and digital media render the above questions moot.

**PIRs and E-Commerce (in the Digital Copy Sense)**

As multimedia products continue to converge, there will not be much of a difference between a computer program, an interactive DVD “movie”, a game, a sound recording, an encyclopaedia, or a “book”. When the National Broadband Network makes these products available for downloading in a matter of a few seconds, how can any protectionist mechanisms that depend on border measures or physical seizure be enforced at all, other than through measures that clearly prohibit international exhaustion in respect of digital products, and back this position up with enforceable anti-circumvention laws?

In the case of literary works, they can be simply provided in digital form. For example, an Australian consumer wishing to purchase an e-book for their own use may simply use Apple iTunes or another e-tailer’s website. Payment and other contractual aspects are dealt with automatically and the “book” is transmitted directly to the Australian consumer. As previously noted with respect to physical, mail order copies, such sales do not involve PIRs as they do not involve the importation of copyright material for the purposes of re-sale or any of the other commercial purposes specified in ss.37, 38, 102 and 103 of the Copyright Act 1968 (Cth). Moreover, digital transactions may be caught by other existing provisions in the Copyright Act 1968 (Cth) (or by new provisions that might be introduced in response to new technology). As Mark Davison rightly points out:

> When distribution takes place via transmission of copyright material in digital form, there will be a reproduction of the copyright material that cannot legally occur without the consent of the copyright owner. This is because a reproduction of the copyright material is received at the other end of the transmission. Consequently, parallel importing via computer transmissions need not be the subject of special provisions in the Act in order for copyright owners to prevent it. The existing right of reproduction will be sufficient to prevent parallel importing. A copyright owner can simply refuse any person, other than its exclusive distributor, the right to reproduce the copyright material in Australia. This would effectively prevent parallel importing even in the absence of specific prohibitions against parallel importing.

Therefore, there is little point in retaining PIRs if digital distribution falls squarely within the reproduction right, which has the same effect as PIRs. In addition to removing PIRs, it is important that existing rights and proposed new rights do not unduly interfere with direct international dealings between consumers and distributors. To do so would be to impose even greater restrictions on the importation of books at a time when technological advances are eroding the basis for such restrictions, and there is a need for fewer rather than more PIRs.

The efficacy of supporting PIRs is also significantly called into question by new technology: promotion and advertising can occur from long distance and can be imbedded and disseminated virally (think Facebook, YouTube and the like); there is no need to expend money, space and time on acquiring and maintaining large stocks; distribution costs are significantly reduced as the distance involved in distribution also becomes irrelevant. The “book” can be sent quickly over any distance and the different costs of transporting it ceases to be a legitimate distribution expense. In short, arguments for a geographical segregation of copyright markets disappear in the face of technology that substantially reduces the significance of geography.

From a digital dissemination perspective, these advancements in technology have basically rendered the PIRs redundant.

**Tax Reasons**

This article is not about tax policy. However, the following points must be made. As briefly mentioned above, large e-tailers such as Amazon and The Book Depository actively support international shipments and even prepay applicable VAT/GST costs. A patently clear impact of such online purchases has been the missed opportunity to derive GST revenue from domestic sales, as imported items valued below $1,000 are exempt. Small bricks and mortar booksellers are clearly at a significant disadvantage as they operate in a sphere that levies GST, which alone can drive consumers to the grey market. Ideally, virtual entities should be on the same level playing field as their bricks and mortar competition. Why should online retailers have a 10% advantage in terms of net cost to their customers by not being required to collect GST? However, all of this is irrelevant in electronic transactions. If I order an e-book, Australian
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Customs cannot possibly get its hands on those bits that come into Australia and install themselves on my tablet or e-book reader.92

PIRs Should Be Replaced with a Tax Offset: Comparative Analysis if Producer Offset Scheme and the Hypothetical Author Offset

Impetus for the Producer Offset

For those unfamiliar with the Producer Offset,93 in the 2007–08 Federal Budget the Australian Government announced a package of measures to reform and strengthen the Australian film and television industry at a time when it was (and continues to be) striving to meet the challenges of a changing global environment.94 A key measure was introducing a refundable tax offset for Australian production expenditure in making Australian films,95 where a film is a feature film or a television series, but specifically excludes other formats, such as documentaries, commercials, quiz shows, panel programs and variety programs.96 The amount of the offset is determined as a percentage of certain Australian expenditure incurred by a company in producing the film.97 Although taxation incentives for the film industry were already provided to both investors in, and producers of, Australian films,98 the regime had limited successes and so was phased out in favour of shifting towards incentives for producers of films.99

The governing authority, Screen Australia, not only administers the Producer Offset but also provides production investment (largely by way of equity investment) through its Feature Film Production Program in order to assist in the creation of a diverse range of successful Australian films.100 Like any other investor in a film project, Screen Australia enters into a production investment agreement and typically takes ownership in project assets (including the copyright in the film), in proportion to its investment as a percentage of the total budgeted cost. Should the project become successful and profitable, Screen Australia would continue to participate in any future disbursements beyond merely recouping their initial investment, with a view to sustainably invest in more profitable projects.

Some of the key terms, concepts and mechanisms of the Producer Offset are: “production expenditure”, “Qualifying Australian Production Expenditure” (QAPE), “company”, “Significant Australian Content” (SAC), and “making of”. Following a brief explanation of the key terms, I will analyse whether such a scheme could be transposed to the Australian publishing industry through an “Author Offset”. I will then analyse research data on the returns on the investments made by Screen Australia and determine whether or not Producer Offset-funded projects have been successful, in order to predict the likelihood of success in the publishing industry should such a scheme be introduced.

The Producer Offset – Summary of the Scheme and Key Terms

Production Expenditure

As distinct from “development” or other forms of expenditure, production expenditure is so much of a company’s expenditure as it incurs in, or in relation to, the making of the film. The “making of” the film means doing the things necessary for the production of the first copy of the film (including pre-production and post-production) and any other activities undertaken to complete the film, being a point where it could reasonably be regarded as ready for broadcast, exhibition or distribution to the general public (i.e. theatrically, by broadcast, video distribution or otherwise).

Although development expenditure is generally not production expenditure (and may be difficult to be distinguished from pre-production expenditure), the distinction is less relevant for Australian development expenditure, which is deemed to be QAPE.

Qualifying Australian Production Expenditure – (QAPE)

The keystone of the Producer Offset is QAPE. QAPE is a subset of production expenditure: the proportion that is incurred for, or is reasonably attributable to, goods and services provided in, or the use of land located in, Australia (subject to specific statutory inclusions and exclusions). The direct value of the offset to a producer is the percentage of QAPE, currently at 40% of QAPE for eligible feature films, and 20% of QAPE for other eligible film formats (primarily televisions shows and series). A linchpin of the Producer Offset is to encourage growth of the Australian screen production industry. To achieve that result, the offset is only available to projects that spend above a minimum expenditure threshold on production (and for some formats requiring a minimum average QAPE to be spent per hour of the film). The minimum expenditure thresholds differ depending on the format of the project (i.e. feature films or other eligible formats).
Company

The Producer Offset is administered by Screen Australia and paid through the Australian company tax system after a project is completed (which must occur in the same financial year that the offset is being claimed) and Screen Australia has issued the production company with a Final Certificate. The certification process ensures that budgets/expenditure are worked out on an arm’s length basis (and are not exorbitantly inflated to merely extract a higher offset amount). It also gives producers an estimate of the return to be expected come tax time, which in turn can be used as evidence when seeking "offset loans" in order to cash-flow the film in the interim. The tax offset is only available to a company that is either an Australian resident or carries on business in Australia and has an Australian Business Number. This means that there is no discrimination between companies that have the same tax presence in Australia, whether they are domestic companies, or subsidiaries of foreign entities.

Significant Australian Content (SAC)

Although the scheme does not discriminate between foreign and domestic entities as to who the ultimate recipients of the benefit of the Producer Offset are, however, another key requirement is that the film must have Significant Australian Content (SAC) or has been made as an official co-production. Screen Australia publishes and updates from time to time guidance on SAC. Relevant factors to be considered by Screen Australia include the subject matter of the film, the place where the film was made, the nationalities and residence of those who took part in the making of the film, the details of production expenditure for the film, and any other matters Screen Australia considers to be relevant.

Such relevant matters include the impact of the project on creating a sustainable Australian film and television production industry, the extent to which copyright ownership resides with Australians, the extent of profit participation and recoupment, and the extent to which creative control rests with Australians. Thus, the SAC test is a mechanism to encourage Australian "culture" as well as promote "industry" without falling foul of any international obligations Australia might owe under TRIPs that would otherwise occur if a similar SAC test were introduced under the Copyright Act 1968 (Cth).

The Relative Success of the Producer Offset

Although the Producer Offset is still very nascent, there are promising signs of its impact thus far and its potential for future growth, most notably in terms of box office releases, sales, profits made by Screen Australia on its investments, and the steady increase of applications filed to receive production investment.

Domestic and International Theatrical Release Figures

Over the past four decades, Australia has built a solid feature production industry. The average number of Australian features produced annually has grown from 14 films a year in the 1970s to 30 films in the 1980s, 27 films in the 1990s and 29 per year since then. The number of domestic releases in 2008 and 2009 were 33 and 46 respectively, a significant increase over the average of 27 per year between 2005 and 2007. Generally, all production investment in feature films in Australia increased dramatically since 2008: US$143 million in 2008, US$284 million in 2009, and US$373 million in 2010, notwithstanding that the strength of the Australian dollar against the US dollar would typically dissuade foreign investment.

Feature films under Australian or shared creative control earned AU$42.9 million or 3.9 per cent of the total Australian box office in 2011, above the 10-year average of 3.8 per cent. In 2010 and 2009, the earnings were AU$50.6 million (4.5% share) and AU$54.8 million (5.0% share), respectively. Applications and Funding

Since the introduction of the Producer Offset in 2008, the number of applications for production investment has steadily increased. Whilst only 42 Final Certificates were issued by Screen Australia in the inaugural years of the Producer Offset (2008/09 – representing an offset value of AU$85.24 million), in keeping with the authority’s raison d’être of enhancing “Australia’s screen culture, nationally and internationally, by supporting the development of the Australian screen production industry and by developing, producing, promoting and providing access to diverse Australian program”, that number sharply rose in 2009/10 to 128, representing an offset value of AU$118.01 million in production investment. That figure rose again in 2010/11 to 155 Final Certificates, characterising AU$128.18 million of investment. As of 31 December 2011, Screen Australia has issued a total of 413 Final Certificates, representing...
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Although Wolf Creek was funded by Screen Australia’s predecessors, its popularity (or infamy) resulted in it being screened in cinemas over two consecutive years. Furthermore, whilst its Australian gross box office was only $5,800,416, bear in mind that its budget was around a mere AU$1,000,000. Moreover, this becomes even more impressive when one sees that the worldwide box office revenue it generated was US$27,762,648.

An “Author Offset”

It is not surprising that both the Australian screen media and publishing industries have a number of similarities, most obviously the fact that cinematograph films and literary works derive protection from the same source of legislation. Both industries operate in the sphere of media and entertainment, and are facing similar pressures from technology and new media formats. Producers and authors also face considerable obstacles in negotiating licenses, distribution agreements and the like, and unless they command a considerable reputation, often have little to no profit participation/royalties beyond a one-off licensing fee.

Table 1:

<table>
<thead>
<tr>
<th>Title</th>
<th>Release Date</th>
<th>Australian Box Office Gross ($A)</th>
<th>Australian Domestic Ranking in Year of Release</th>
<th>Estimated Budget ($A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kath &amp; Kimderella</td>
<td>6 September 2012</td>
<td>$6,081,439124</td>
<td>3rd in 2012</td>
<td>-</td>
</tr>
<tr>
<td>The Sapphires</td>
<td>9 August 2012</td>
<td>$14,465,831125</td>
<td>1st in 2012</td>
<td>$10,000,000126</td>
</tr>
<tr>
<td>A Few Best Men</td>
<td>26 January 2012</td>
<td>$5,296,692127</td>
<td>4th in 2012</td>
<td>-</td>
</tr>
<tr>
<td>Red Dog</td>
<td>4 August 2011</td>
<td>$21,327,512128</td>
<td>1st in 2011</td>
<td>$8,500,000129</td>
</tr>
<tr>
<td>Tomorrow When The War Began</td>
<td>2 September 2010</td>
<td>$13,480,012130</td>
<td>1st in 2010</td>
<td>$25,000,000131</td>
</tr>
<tr>
<td>Animal Kingdom</td>
<td>3 June 2010</td>
<td>$4,923,536132</td>
<td>3rd in 2010</td>
<td>$5,000,000133</td>
</tr>
<tr>
<td>Bran Nue Dae</td>
<td>14 January 2010</td>
<td>$7,680,192134</td>
<td>2nd in 2010</td>
<td>$6,500,000135</td>
</tr>
<tr>
<td>Wolf Creek</td>
<td>3 November 2005</td>
<td>5,800,416136</td>
<td>1st in 2005</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>
The sentiments expounded in the Explanatory Memorandum with respect to producers and the screen media industry could easily be applied to authors and the publishing industry:

The introduction of the [Author] Offset represents a major new support mechanism for [authors] and it will assist the industry to be more competitive and responsive to audiences. It provides a real opportunity for [authors] to retain substantial equity in their [works]… and aims to increase private investor interest in the industry.140

The amount of the Author Offset would be determined as a percentage of certain Australian expenditure incurred by an author (or her company) in producing the book. “Book” could be defined to include, for example, a novel, a collection of short stories, or a book series, and even exclude other formats, such as magazines, advertisements, transcripts of public events, and textbooks of an academic nature. Certain categories of “book” would have corresponding minimum page or word quotas, to cater for the obvious differences between genres, such as between adult novels and children’s literature.

Much like in the Producer Offset, I believe that QAPE should also form a central role in the hypothetical Author Offset. Encouraging investment in a particular type/format of literary works could be facilitated through a similarly tiered system that differentiated between, say, novels, children's books, and academic/text books. For example, if it were deemed that the production of novels should take precedence above all other forms of literary works, then that could be encouraged by setting the direct value of the offset at, say, 40% of QAPE. Continuing the example, if children's books and textbooks came second and third, then their values could be 30% and 10% of QAPE, respectively. Coupled with minimum expenditure thresholds of QAPE per type of literary work, the effect would be to encourage spending on producing books and literary works in accordance with policy needs and desired outcomes.

Potential Benefits to Authors and Publishers

Would the above framework benefit the publishing industry? Both publishers and authors have considerable advantages to gain from an Author Offset. The prospect of authors bringing extra funds to the negotiation table (in the form of future returns embodied in the Final Certificate) has the potential of evening out the power imbalance between authors and trade publishers, or even tipping the balance in the author’s favour if dealing with a local/independent publisher. Overall, the practical benefits are four-fold:

- The author could use the offset amount to either complement any personal funds used to cash-flow a book, or supplement the offset amount in lieu of personal funds.
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- The author could effectively invest more capital into their own project, typically taking a larger share of ownership in the book, subject to contract, which should see the author enjoying a greater share of royalties.
- The publisher’s expenditure could potentially be reduced by the value of the offset amount, reducing the overall perceived risk in the investment.
- The offset amount could potentially free up a publisher’s capital in one project thereby increasing the likelihood of investing in more projects and, ideally, encourage taking “risks” on lesser-known authors.

Obviously, the value of the Author Offset and the amounts invested into projects would not be as high as the figures typically associated with film and television production. However, as outlined in Table 1 above, there is certainly a potential for relatively significant returns for the hypothetical Authority’s publishing investment.

Conclusion

As canvassed throughout this article, as a matter of policy, PIRs under the Copyright Act 1968 (Cth) should be repealed outright, as there is general consensus that PIRs are anti-competitive. As a matter of pragmatism, the advancement of technology provides for three further, independent, but related reasons as to why PIRs should be repealed. The near-perfect market conditions cultivated by the internet and the proliferation of e-commerce, with virtually free real-time information, has made global price differences more transparent, which has contributed to the dramatic increase in the number of individual consumers dealing directly with international distributors, side-stepping the domestic rights-holders. Given that this form of parallel importation is for personal use and falls outside the requirement for “trade or commerce” under the Copyright Act 1968 (Cth), PIRs are powerless in preventing individuals from parallel importing cheaper products from overseas distributors.

The second technological reason is that digital dissemination now does not involve any physical product crossing any borders — there is no physical copy that can be stopped or seized by Australian Customs. Nor is there associated shipping and handling costs typically associated with a traditional model of providing atom and molecule products. Thirdly, the reproduction right afforded to copyright owners is more suited to prevent any unauthorised distribution of digital goods/e-books, making PIRs superfluous in the overall protection of rights-holders’ interests. There is also the lesser issue of the missed opportunity to extract GST revenue. The overall picture we get is that PIRs appear to be harming rather than helping authors and bricks and mortar bookstores (and to some extent trade publishers).

The Producer Offset, as it applies to the screen media industry, provides a tried and true template to overcome the shortcomings of PIRs, as well as alleviates the concerns of various stakeholders in the publishing industry; most importantly, Australian authors. As demonstrated, the Author Offset could be modelled on the already existing framework and guidelines that were established by Screen Australia over the past five years (and are continuing to monitor and review). The relative successes of Screen Australia in such a short time provides a promising substitute for achieving the aims of PIRs, without the anti-competitive shortcomings, should the government continue down the path of slowly, but surely, removing them from the Copyright Act 1968 (Cth).

1 Agreement on Trade-Related Aspects of Intellectual Property Rights, opened for signature 15 April 1994, 1869 UNTS 299 (entered into force 1 January 1995) art 3 (national treatment) and art 4 (most favoured nation treatment) (TRIPS).
2 Productivity Commission, Restrictions on the Parallel Importation of Books, Research Report, released 14 July 2009 (overview) XVI.
7 MacGillivray, above n 5, 31.
8 Howard P Knopf, above n 6, 113-63.
12 Howard P Knopf, above n 6, 113-54.
13 MacGillivray, above n 5, 31.
14 MacGillivray, above n 5, 20.
15 Marius Ganslender & Keith E Maskus, Wholesale Price Discrimination and Parallel Imports (Working Paper No. 1951) (2007), 35: “Requiring the manufacturing firm to charge a uniform wholesale price may be optimal for low trade costs when the pro-competitive effect is substantial but may have a severe negative effect on consumer welfare when trade costs are high as the primary effect is that retail prices increase in all markets”.

18 Vinelli, above n 16, 142-143.

19 MacGillivray, above n 5, 21.

20 Warwick Rothnie, “Parallel Imports and Copyright” (2005) 6 *Business Law International*, 326, 327: “Parallel imports are goods that have been placed on the market in the place of export (the “export country”) by or with the consent of the owner of the intellectual property rights embodied in the goods, which are then imported into another country (the “import country”) without the permission of the intellectual property owner in the import country. The goods are legitimate or genuine as they have been made by, or with the consent of, the intellectual property owner and are not “counterfeit” or “pirate”. They are also imported in parallel to the distribution channels set up by the intellectual property owner in the import country, hence “parallel imports”.”

21 Vinelli, above n 16, 144; MacGillivray, above n 5, 8.

22 Vinelli, above n 16, 172.

23 ibid., 139.

24 ibid., 172.

25 Rothnie, above n 20, 336.

26 Vinelli, above n 16, 142.

27 Fels and Walker, above n 3, 571.

28 Vinelli, above n 16, 142.

29 Rothnie, above n 20, 328.

30 Vinelli, above n 16, 145.

31 Rothnie, above n 20, 328.

32 Vinelli, above n 16, 145.


34 Rothnie, above n 20, 328.

35 Both TRIPS and the WIPO Internet Treaties are policy neutral about parallel imports.

36 TRIPS, above n 1.

37 Rothnie, above n 20, 329.

38 Agreement on Trade-Related Aspects of Intellectual Property Rights, opened for signature 15 April 1994, 1869 UNTS 299 (entered into force 1 January 1995); Art 6: “for the purposes of dispute settlement under this Agreement ... nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights”.


40 Knopf, above n 6, 113-13: “The issue of first sale is also mentioned in footnote 7 of TRIPS in the context of patents, and in footnotes 13 and 14 in the context of border measures. Essentially, the TRIPS agreement seems to be saying that exhaustion is a matter that will be left to individual countries and will not form the basis of a dispute procedure. However, TRIPS is also saying that the applicable provisions, if any, of the treaties incorporated by reference still apply (Article 2), as well as the national treatment and most favoured nation principles (Articles 3 and 4, respectively). While it seems clear enough that TRIPS does not force any particular exhaustion doctrine upon its members, it is somewhat less clear as to whether any member can take action against another outside of TRIPS to relation to an issue that involves exhaustion”.

41 Rothnie, above n 20, 329.

42 Knopf, above n 6, 113-4.

43 Rothnie, above n 20, 346.


47 Longdin, above n 39, 112-2.


49 Copyright Amendment Act (No. 2) 1998, No. 105, 1998.


54 ibid., 267.

55 Conley, above n 52, 202.

56 ibid.

57 ibid., 206.


59 ibid.

60 Australian Competition and Consumer Commission, *Submission to the Productivity Commissioner’s Study into Copyright Restrictions on the Parallel Importation of Books* (January 2009), 7-8 (emphasis added).

61 Davison, above n 53, 271.

62 Explanatory Memorandum to the *Copyright Amendment (Parallel Importation) Bill* 2002 (Cth), 1.

63 Davison, above n 53, 271.


66 Davison, above n 53, 271.

67 ibid.

68 ibid., 270.

69 Copyright Amendment (Parallel Importation) Bill 2002 (Cth).


71 Knopf, above n 6, 113-17.

72 ibid., 113-15.

73 ibid., 113-17.

74 Longdin, above n 39, 112-15.

75 Knopf, above n 6, 113-66.

76 ibid., 113-9.
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77 ibid.
78 ibid., 113-64.
79 The Book Depository's website claims: “Free delivery worldwide on all our books”: http://www.bookdepository.co.uk/.
80 Knopf, above n 6, 113-52.
81 Longdon, above n 39, 112-15–16: “Given the general relaxation of PIRs in Australia for books first published overseas, the detour around these restrictions provided by direct sales on the internet is only likely to be of interest in relation to books first published in Australia and reprinted elsewhere or pre-amendment foreign books and then only when local orders remain unfulfilled within the statutory period of grace”.
82 Rothnie, above n 20, 357.
83 Knopf, above n 6, 113-56.
84 ibid., 113-56.
85 ibid., 113-56.
86 Davison, above n 53, 273.
87 ibid., 278.
88 ibid.
89 ibid. 272.
90 Knopf, above n 6, 113-52.
91 ibid., 113-53.
92 ibid.
93 Income Tax Assessment Act 1997 (Cth), ss.376-55.
96 Income Tax Assessment Act 1997 (Cth), s.376-65(2)(d).
97 Income Tax Assessment Act 1997 (Cth), s.376-2(3).
98 By allowing deductions for capital expenditure under either Division 10B or Division 10BA of the Income Tax Assessment Act 1936 (Cth) (ITAA 1936).
101 Income Tax Assessment Act 1997 (Cth), s.376-125.
102 Income Tax Assessment Act 1997 (Cth), s.376-55(2).
103 Development expenditure includes expenditure on: storyboarding and screenwriting, research for the film, casting actors; developing a budget; location surveys, and the like.
104 To the extent that those development costs are connected to Australia (in providing goods and services, use of land, etc.).
105 Income Tax Assessment Act 1997 (Cth), s.376-150.
106 Income Tax Assessment Act 1997 (Cth), s.376-60.
107 Income Tax Assessment Act 1997 (Cth), s.376-65(7).
108 Income Tax Assessment Act 1997 (Cth), s.376-65(6).
110 Income Tax Assessment Act 1997 (Cth), s.376-70.
The European Research Commissioner, Philippe Busquin, stated that “[i]n Europe, we have a legitimate diversity of rules and ethical frameworks in the field of human embryonic stem cell research”. Hence, there has been a continuous push by scientists and biotechnology companies in the EU to harmonise human embryonic stem cell regulation. To promote technology advances in the community, the EU has made an effort to reach a consensus on human embryonic stem cell research regulations.

This article explores the particular challenges to harmonising human embryonic stem cell regulations and investigates the EU solutions to conquering such challenges. It concludes that lawmakers should preserve space for flexibility when generating uniformity in human embryonic stem cell research by drawing on four primary aspects from regulatory harmonisation attempts, namely: the establishment of the Biotechnology Directive; allowing different moral definitions and various legal statuses for human embryos in the EU; providing a uniform concept for human embryos and a total ban on patents involving destruction of human embryos in the EU; as well as infusing moral control with patent laws.


With fierce commercial competition behind biotechnological innovation, the EU foresaw the enormous potential profits, especially for using human embryonic stem cells to cure disease. In addition, the EU observed that a friendly environment for biotechnology research is crucial for the biotechnology industry's prosperity.

Although there was a uniform application process for European patent within the EU, this centralised registration framework coexists with national patent jurisdiction. Therefore, where a European patent could not be acquired, a national patent could be granted among member states. This legal inconsistency and uncertainty might inevitably yield additional costs for biotechnology business.

Beyond the ambition to provide the European biotechnology industry with a considerable advantage over US and Japan, the EU drafted and issued the Directive 98/44/EC of the European Parliament and the Council on 6 July 1998 for legal protection of biotechnological inventions (the Directive). Recital 3 of the Directive states “[e]ffective and harmonised protection throughout the Member States is essential to maintain and encourage investment in the field of biotechnology”.

The Directive provides an example where harmonisation is essential for clarifying legal inconsistency and uncertainty. The Directive ordered that Member States implement it before July 30 2000 to ensure harmonisation. From the above analysis, it is concluded that the EU clearly realised the importance of harmonising human embryonic stem cell regulation within its community. However, the question is whether the Directive benefits harmonisation of human embryonic stem cell regulations.


Immediately after the Directive was adopted, the Kingdom of the Netherlands – supported by Norway and Italy – claimed that applications to the European Court of Justice violate the Directive. The petition consisted of six pleas: (1) that it is incorrectly based on Article 100a (now Article 95) of the Treaty; (2) that it is contrary to the principle of subsidiarity; (3) that it infringes the principle of legal certainty; (4) that it is incompatible with international obligations; (5) that it breaches...
fundamental rights; and (6) that the procedure for its adoption was incorrect.\textsuperscript{11}

The plea that the Directive does not benefit harmonisation of the EU community market through Article 100a of Treaty of the Europe Union is the dominant argument.\textsuperscript{12} The appellant first stated that different interpretations of the Directive in Member States could create barriers to trade, which was contrary to the rational of the directive and harmonisation.\textsuperscript{13} The Judges unanimously disagreed with this argument and believed that: "the differing interpretations to which those provisions are open as regards the patentability of biotechnological inventions are liable to give rise to divergences of practice and case-law prejudicial to the proper operation of the internal market".\textsuperscript{14}

Considering that national patent jurisdiction is to "prevent damage to the unity of the internal market which might result from the Member States deciding unilaterally to grant or refuse such protection,"\textsuperscript{15} the Court indicated that the intent of the Directive was to require that Member States protect biotechnological inventions.

Secondly, the appellant speculated that international legal instruments, not the European Community, should be responsible for harmonisation.\textsuperscript{16} The Court held that the origin of harmonisation did not matter: "There is nothing in principle to prevent recourse to adoption of a Directive as a means of ensuring a uniform interpretation of such terms by the Member States".\textsuperscript{17} Finally, the appellant argued that the Directive went too far because it created a new property right, certain aspects of which were covered by patent laws.\textsuperscript{18} The Court did not consider that the Directive created a new right. Alternatively, the Court ruled that: "the Directive makes certain clarifications and provides for derogations from patent law as regards the scope of the protection".\textsuperscript{19}

The Court finally affirmed that the Directive was correctly adopted based on Article 100a of the European Commission Treaty.\textsuperscript{20} They not only confirmed the necessity of the Directive as a harmonisation measure for eliminating biotechnology regulation disparities between Member States, but also testified that the Directive is important to EU biotechnology businesses for reducing obstacles and enhancing their competitive position.

\textbf{Disparities among Member States in Implementing the Directive Despite Efforts toward Harmonisation}

With different social and legal cultures in the Member States, it is unsurprising that the Directive did not produce real harmonisation. Simultaneously maintaining a uniform set of rules and reconciling different Member State regulations is not easy. The draft history of the Directive strongly hinted at such divergent views. After 10 years of debates and queries on whether moral principles were compatible with the Directive, the Directive finally portrayed itself as unified and competent for harmonising biotechnology patent laws in the EU.\textsuperscript{21}

During the 10 years of discussion, France always played a role in supporting the Directive.\textsuperscript{22} However, two years after implementing the Directive, the French National Advisory Committee of Ethics encouraged the French Government to start a new discussion about the terms of the Directive.\textsuperscript{23} The suggested discussion was primarily on "the non-commercialisation of the human body, the free access of the knowledge of gene, and the sharing of this knowledge".\textsuperscript{24} The French Government made an effort to avoid implementing or delay implementation of the Directive. The UK acted similarly.\textsuperscript{25} Due to various concerns and divergent interpretations, the UK legislators spent more than two years implementing the patent exclusion provisions of the Directive.\textsuperscript{26}

Apart from slowing down the Directive transition, Member States also showed immense discrepancies in their national implementation legislation.\textsuperscript{27} What are the primary factors considered by the Member States when implementing the Directive into national law? Moral issues and national commerce interests could be two leading aspects. For example, the French National Ethics Committee’s opinion was significant in drafting the French law related to the Directive.\textsuperscript{28} Economic pressures expressed by the public are also considered in French policy.\textsuperscript{29} However, why did the Member States differ in implementing the Directive? One reason may be the different weights for the two factors in each Member State. If the economic element outweighs the moral value, countries tend to adopt a permissive policy and liberal interpretation of the Directive. In contrast, a restrictive policy might be applied in countries where the moral value outweighs the commercial benefits.
Although the Directive was imperfect, we do not doubt its extraordinary achievements. We should also bear in mind that the Directive does not sacrifice a fundamental principle to moral objections or patent demands in business. Most importantly, the Directive clearly met its aim to harmonise biotechnology regulations in the EU for scientific progress.

No Uniform Moral Definition and the Legal Status of Human Embryos

Despite the tendency of the Directive toward harmonising biotechnology regulations in the community, the Directive provides neither a uniform moral definition nor a uniform legal status for human embryos. Member States adopted different approaches in this area. Moreover, the human embryo is excluded from patenting where the Directive lacks a uniform moral definition and human embryo legal status. Human embryos, as a part of the human body “at the various stages of its formation and development”, are not patentable.

Case Vo v France: Margin of Appreciation Principle, Different Interpretations Based on Various Cultural, Philosophical and Cultural Circumstances

This case is related to a criminal suit involving a six-month-old foetus mistakenly removed from Mrs Thi-Nho Vo by a doctor in France. The doctor was initially charged with involuntary injury. However, the crime was later changed to involuntary homicide by the Lyons Court of Appeal after the application was appealed. Alternatively, the Court of Cassation revoked the Court of Appeal decision because the foetus was not a human being under criminal law. Therefore, an involuntary homicide conviction could not be established.

Finally, Mrs Thi-Nho Vo complained to the European Court of Human Rights, alleging that the French Government should pass legislation characterising the unintentional killing of a foetus as involuntary homicide based on Article 2 of the European Convention of Human Rights.

The Court noted that the different levels of protecting human life among Member States results in a lack of both scientific and legal definitions for the beginning of human life. The decision respected the traditions of Member States and held that the human right “comes within the margin of appreciation which the Court generally considers that States should enjoy in this sphere”.

The margin of appreciation principle, which was developed considering the conflict between Member States and the Convention, allows national courts to interpret the convention differently based on various cultural, philosophical and cultural circumstances.

Evans v United Kingdom (UK): No Uniform Legal Status for Human Embryos

This case referred to protect an IVF embryo owned by Miss Evans and her former husband. Miss Evans requested that the European Court of Appeal withdraw the ruling by the UK High Court to destroy the embryo from Miss Evans’ ex-husband. The petition was refused. At the European Court of Human Rights, Strasbourg, Miss Evans then claimed that the UK Government should protect the embryos from destruction by the clinic because the UK regulation is contrary to the European Convention on Human Rights.

The Court left the decision on whether destroying human embryos opposes the fundamental principle of the Convention on human dignity to the Member States. In the case Vo v France, the Court stated the issue as when human rights fall within the margin of appreciation (i.e., when Member States have the right to provide explanations under the Convention). Furthermore, the Court stated that there is no legal basis for the uniform European ban because the intention was that the Directive is not within the scope of the ban.

Evans v United Kingdom: The decision clarified the scope of restrictions on HESC research in the European Convention of Human Rights.

Uniform Concept of Human Embryos and the Ban on Patenting Inventions that Involve the Destruction of Human Embryos

Distinct from the margin of appreciation principle established in Vo v France and Evans v United Kingdom, the European Court of Justice held that an autonomous concept of European Union law must be applied when looking for the definition for the purposes of a uniform interpretation of law within the EU in Oliver Brustle v Greenpeace. The Court distinctly stated that:

The lack of a uniform definition of the concept of human embryo would create a risk for the authors of certain biotechnological inventions being tempted to seek their patentability in the Member States which have the narrowest concept of human embryo and are accordingly the most liberal
Space for Flexibility: Lessons from the European Union Harmonisation Model in Human Embryonic Stem Cell Regulation

...as regards possible patentability because those inventions would not be patentable in the other Member States. Such a situation would adversely affect the smooth functioning of the internal market, which is the aim of the Directive.55

The Court noted that neither the Directive nor the European Patent Convention (EPC) provided a uniform embryo definition. Considering that the definition of human embryo is "a very sensitive social issue" in many Member States, the Court must "restrict itself to a legal interpretation of the relevant provisions of the Directive" instead of broaching "questions of a medical or ethical nature."46 After considering the moral value and industrial potential of human embryos, the Court ruled that the meaning and scope of human embryos should be broadly interpreted where embryos are formed and its intent underlying such formation.47 But relevant to human embryonic stem cells, whether they are capable of commencing the process of development of a human being or not, is subsidiary to the concept of a human embryo.48

Given this uniform definition of a human embryo, any research related to HESC, including that to merely using established cell lines funded by the EU, is prohibited from patents. This complete ban on HESC patents involving the destruction of human embryos was criticised by scientists and legal scholars. For example, Aurora Plomer from Sheffield’s Institute of Biotechnology, Law and Ethics, articulated three serious flaws in legal dimension.49 First, Plomer thought that the ruling betrayed the intention of the Directive given its drafting history because the Directive was "never to render unpatentable research that is lawful in Member States."50

Secondly, considering that a European-wide ban was not imposed by the EU Directive on human tissue and cells (2004),51 as well as regulations on advanced therapies (2007),52 a Europe consensus on the degree of human dignity has not been reached. However, the ruling presumed that a uniform European view had developed despite the diversity of laws and moral cultures in Member States.53 Thirdly, the ruling was inconsistent with the margin of appreciation principle in the preceding decision by the European Court of Human Rights.54

The Attempt at Infusing Moral Control with Patent Regulations

Initially, biotechnology inventions were treated equally with other inventions in the patent application procedure. However, in contrast with other inventions, biotechnology inventions are coupled with morality issues.55 Despite the strong impetus encouraging biotech advances, the EU did not sacrifice moral standards for either legal harmonisation or industry benefits.

Article 6 (1) of the EU Directive states that "inventions shall be considered unpatentable where their commercial exploitation would be contrary to ordre public or morality."56 Article 6 (2) further lists "uses of human embryos for industrial or commercial purposes" that should be considered unpatentable. From the history of HESC regulation in EU, it was concluded that “despite some initial hesitations about involvement in moral issues surrounding patentability, the European Patent Office (EPO) finally accepted the necessity of addressing such issues.”57 Therefore, the EU development of human embryonic stem cell regulations infuses moral considerations into traditional patent regulations.

However, moral issues related to biotechnology patents could not be easily articulated. Certain inventions, such as cloning human beings and using human embryos for industrial or commercial purposes, could simply be excluded from patentability.58 As Brody Baruch states, this experience demonstrates "the need for well-articulated criteria for determining what should be excluded from patentability on those grounds in order to deal with newly emerging controversial inventions".59 However, certain issues, such as human dignity and commercialisation of the human body might be appropriate for alternative social mechanisms.60 Brody Baruch suggests that such considerations should be understood under better theoretical circumstances.61 Therefore, Baruch concludes that “the European experience is an incomplete experiment in incorporating moral considerations into patent law”.62

The combined moral control and patent regime in the EU framework is strange to certain scholars, including certain legal positivists, such as Bentham, who state that patent law is "a technical, commercial tool with little or nothing to do with questions of morality".63 Using an alternative philosophy, Hart also claims that morality should play no part in patent law.64 Certain academics, such as Cornish and Llewelyn, have argued that morality and patent law should be divided because the patent system is not an appropriate arena for moral discussions.65 The objective, technical and
legal nature of patent law is contrary to morality due to it is inherently malleable, subjective and emotive.66 Certain scholars have even suggested removing the moral objections from the Directive.67

The authors agree with separating moral considerations from the EPO patent procedure because the capacity for performing moral analyses is limited. The EPO was regarded as unqualified because their examiners are "not sufficiently trained in philosophy or jurisprudence to tackle moral issues surrounding patent law".68 In fact, EPO examiners recognised that they are not an appropriate authority for measuring such moral issues. In Euthanasia Composition, the Technology Board of Appeal (TBA) further publicly pointed out that "morality is not a criterion to be determined by patent authorities."69 It is therefore to be concluded that an infusion of moral control and patent law in the EU is not an appropriate approach.

Conclusion

As has been demonstrated, the Member States retain certain decision-making rights in the EU for the harmonisation of human embryonic stem cell regulations. Although the EPC provides uniform substantive principles and procedures for patent applications, the EU did not uniformly define the legal and moral status of human embryos. However, the EU reached a consensus on human embryos; the EU imposed a total ban on cloning and destroying human embryos. In the author's opinion, the EU's infusion of moral control and patent law is not the appropriate strategy. Typically, for human embryonic stem cell regulation, the EU provides clear guidance for Member States and provides sufficient opportunity for adoption. The space for flexibility, which aids in relieving the tension underlying moral conflicts in different countries, may be at the heart of harmonising human embryonic stem cell regulations.

2 “European Commission Publishes Background Paper on Stem Cell Research, The Public Health Genetics Unit Available at: http://genome.wellcome.ac.uk/doc_WTD0207835.html
4 See the Commission of the European Communities Reports on Human Embryonic Stem Cell Research of 4 March 2003. In Chapter One, “Origin and Characteristics of Human Embryonic Cells and Potential Application for Stem Cell Research”, it states the potential application of human stem cell research includes the development of novel stem cell based therapies, the understanding of human development, the understanding of the basic mechanisms of cell differentiation and proliferation, transplantation of differentiated cells derived from stem cells, stimulation of endogenous stem cells and direct administration of stem cells. It further provides some examples of stem cell applications for treating diseases such as neurological diseases and disorders, heart failure and diabetes.
5 See FP6 life science, genomics and biotechnology for health reports on stem cell patents: European Patent Law and Ethics. It states that: "[the] EC needed to be strategically positioned in order to take maximum advantage of the opportunities for the generation of wealth and job-creation that the promised growth of the biotechnology industry promised. Patent law was to play a key role in this process". See also Winfried Kluth, "Embryonic Stem Cell Research and European Law, World Stem Cell Report 134 (2010). The author concluded the uncertain legal framework in EU has negative effects on research projects on Member States.
8 supra, n.3.
9 id. See Recital 9 of the Directive which provides that: "whereas in certain cases, such as the exclusion from patentability of plant and animal varieties and of essentially biological processes for the production of plants and animals, certain concepts in national laws based upon international patent and plant variety conventions have created uncertainty regarding the protection of biotechnological and certain microbiological inventions; whereas harmonisation is necessary to clarify the said uncertainty".
10 ibid. See Article 15 of the Directive which provides that: "Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive not later than 30 July 2000. They shall forthwith inform the Commission thereof".
12 See Article 100a of the European Community Treaty which provides that: "the Council shall acting unanimously issue directives for the approximation of such provisions laid down by law, regulation or administrative action in Member states as directly affect the establishment or functioning of the common market".
13 supra, n.11, at para 14.
14 ibid., at para 16.
15 ibid., at para 18.
16 ibid., at para 19.
17 ibid., at para 20.
18 ibid., at para 23. (stating that “by virtue of Article 8 and 9, the protection it provides for applies not only to specific biological material but also to biological material obtained from it by reproduction or multiplications, and that under Article 11 the right of the holder of the patent, as against framers, is limited.”)
19 ibid., at para 25.
20 id., at para 27 and 29. The Court held that: "whilst it is common ground, in that regard, that the aim of the Directive is to promote research and development in the field of genetic engineering in the European Community, the way in which it does so is to remove the legal obstacles within the single market that are brought about by differences in national legislation and case-law and are likely to impede and disrupt research and development activity in that field." The Court concluded that: "the Directive was correctly adopted on the basis of Article 100a of the Treaty".

Space for Flexibility: Lessons from the European Union
Harmonisation Model in Human Embryonic Stem Cell Regulation

21 supra, n.7 at 89.
23 ibid.
24 ibid.
26 ibid
27 Regulatory approaches of national jurisdiction in Human Embryonic Stem Cell research in EU could be substantially divided into three categories. First is the permissive policy. The exemplary embodiment is UK where the Article 6(2) of the Directive was narrowly explained, such as pluripotent cells could be granted patent. See reports of the United Kingdom Intellectual Property Office on inventions involving human embryonic stem cells. Available at: http://www.ipo.gov.uk/pro-types/pro-patent/p-law/p-pn/p-pn-stemcells-20090203.htm.
Second is the restrict policy. The exemplary embodiment is Germany where only imported human embryonic stem cell lines could be used in research. See Jan P Beckmann, “On the German Debate on Human Embryonic Stem Cell Research”, (2004) 29 Journal of Medicine and Philosophy, 203. Third is the intermediate policy. The exemplary embodiment is Netherland where embryos created for research is forbidden but surplus embryos from IVF is allowed. See Marta Kirejczyk, “Parliamentary Cultures and Human Embryos: the Dutch and British Debates Compared”, (1999) 29 Social Studies of Science, 889.
29 ibid. at 213.
30 supra, n.3. See Article 5(1) of the Directive states that “the human body, at the various stages of its formation and development, and the simple discovery of one of its elements, including the sequence or partial sequence of a gene, cannot constitute patentable inventions”.
31 Vo v France, No 53924/00 GC (2004).
32 ibid.
33 ibid.
34 See Article 2 of the European Convention of Human Rights which states that: "Everyone's right to life shall be protected by law. No-one shall be deprived of his life intentionally save in the execution of a sentence of a court following his conviction of a crime for which this penalty is provided by law".
35 supra, n.23, at para 83 and 40.
36 id., at para 42.
38 Evans v UK, No 6339/05 ECHR. (2006).
39 ibid.
40 ibid.
41 supra, n.6. See Recital 14 of the Directive which states that “substantive patent law cannot serve to replace or render superfluous national, European or international law which may impose restrictions or prohibitions or which concerns the monitoring of research and of the use or commercialisation of its results, notably from the point of view of the requirements of public health, safety, environmental protection, animal welfare, the preservation of genetic diversity and compliance with certain ethical standards”.
43 supra, n.38.
44 Olivier Brustle v Greenpeace C-34/10 (2011).
45 id., at para 28.
The 28th Annual Conference of the Intellectual Property Society of Australia and New Zealand Inc. is scheduled to be held at the Hilton Queenstown Resort and Spa, New Zealand over the weekend 19 – 21 September 2014.

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For further information contact:
The Intellectual Property Society of Australia and New Zealand Inc.
c/- Trans-Tasman National Secretariat
GPO Box 2491
Melbourne Victoria 3001
Australia
Telephone: (61 3) 9761 2833
Facsimile: (61 3) 9761 2899
Email address: ipsanz@ipsanz.com.au
Web-site address: www.ipsanz.com.au
Current Developments – Australia

IP AUSTRALIA

Martin Friedgut and Amanda Caldwell
Spruson and Ferguson
Patent and Trade Mark Attorneys

General

Decommissioning of IP Lodgment Points
The IP Lodgment Points will be decommissioned on 4 June 2014. IP Australia customers were informed of these changes in October 2013.

Patents

Changes in PCT Fees
In accordance with the directives adopted by the PCT Assembly at its 40th Session (held from 22 September to 1 October 2009), new equivalent amounts in AUD were established with effect from 1 May 2014. They are as follows:

International PCT Fees
1. International Filing Fee: $1657, if the application contains 30 Pages or less including the request form.
   PCT-EASY component of PCT-SAFE reduction: $125.
   Electronic filings filed in PDF format: $249.
   Electronic filings filed in XML format: $374.
   For each page in the application in excess of 30 Sheets: $19.
2. International Preliminary Examination Fees
   If the International Search was performed by IP Australia: $590.
   If the International search was not conducted by IP Australia: $820.
3. International Preliminary Handling Fee: $249.
   Total if Search performed by IP Australia: $839.
   Total if Search not performed by IP Australia $1069.

Issuance of Examination Directions
(28 March 2014)
Under s.44 of the Patents Act 1990 (Cth), the Commissioner issues directions to applicants to request examination, taking into account the progress made in the examination of other applications.

In recent months, the Commissioner reduced the number of directions to request examination as a consequence of an unusually large increase in voluntary requests for examination prior to 15 April 2013. During this period, directions were generally only issued in relation to applications approaching five years from their filing date.

It is expected that, as of April 2014, the number of directions to request examination will begin to increase. This will result from:
   (a) An increasing number of applications approaching five years from their filing date.
   (b) Significant progress in dealing with the voluntary requests for examination.

It is likely that there will be an initial steep increase in the number of directions issued, followed by a gradual increase thereafter toward “business as usual” levels.

It is important to note that the Commissioner issues directions on applications approaching five years from the filing date as a courtesy. Applicants and agents need to have appropriate systems in place to ensure that examination is requested in time.

Failure to request examination in time will result in the application lapsing under s.42.

ePCT now available for international filings
(24 April 2014)
IP Australia is pleased to announce the introduction of ePCT as the preferred filing means for PCT applications.
ePCT is WIPO’s latest fully electronic system, offering customers the ability to securely review and manage their PCT applications. The system also enables customers to create and submit a range of PCT service requests including filing demands and bibliographic amendments (92bis).
The benefits of filing via ePCT include:

• Immediate allocation of a PCT application number.
• Access to up to date information on each application.
• The ability to monitor and review multiple PCT portfolios and the ability to be notified of new correspondence and/or critical deadlines.
• The ability to allocate and manage roles and access to selected parties.
• Does not require installation and maintenance of any software locally.
• The ability to transfer PCT-SAFE address book into ePCT software.
Trade Marks

Amendments to the Trade Marks Office Manual of Practice & Procedure

Part 1 – Introduction, Examination Quality Standards. This part has been updated to remove references to attributes of product quality standards which are no longer used.

Part 6 – Expedited Examination. This part has been reviewed with changes made including the consolidation of information relating to the process for expedited examination.

Part 41 – Cancellation of Registration. This part has been reviewed with changes made including the consolidation of information relating to the process for cancellation of registration.

New Australian International Trade Mark Application Form

IP Australia has published a new Australian International Trade Mark Application Form.

The Form is for applicants who are electing to file a trade mark under the Madrid Protocol with IP Australia being the office of origin. The Form is an adaption of the Official WIPO Madrid Agreement MM2 Form, taking into account the specific requirements for Australian users.

The new Form is available via eservices.

Direction Regarding Payment of Official Fees

On 29 January 2014, IP Australia issued a direction under the Trade Mark Regulations 1995, regarding the payment of official fees. The direction commenced on 15 February 2014.

Under the direction, the way in which an official fee must be paid is by one of the following means:

(a) eServices.

(b) Direct debit by Business to Business customers.

(c) Secure facsimile using a Mastercard or Visa card, and a completed payment form.

(d) Post using a Mastercard or Visa card, cheque or money order, and a completed payment form.

(e) In person at an IP Lodgement Point or at IP Australia’s Canberra office using a Mastercard or Visa card, cheque, money order, debit card or cash, and a completed payment form.

(f) Electronic funds transfer using a completed electronic funds transfer form.

SOUTH AUSTRALIA, VICTORIA and WESTERN AUSTRALIA

Peter Heerey AM, QC, Tom Cordiner and Alan Nash

Barristers

Correspondents for South Australia, Victoria and Western Australia

In this edition, we observe that Telstra is not going to get its YELLOW trade mark, at least for the time being. We also report on two patent cases where the patentees enjoyed partial victories, and two copyright cases where additional damages outstripped general damages by a significant margin. Finally, a handful of cases that remind us that the Federal courts do not enjoy a monopoly over intellectual property related matters.

Phone Directories Company Australia Pty Ltd v Telstra

[2014] FCA 373

(11 April 2014)

Trade marks – application for YELLOW in respect of phone directories – whether inherently adapted to distinguish – whether in fact distinctive of Telstra’s products at the lodgement date

These were two appeals from decisions by delegates of the Registrar to allow registration by Telstra of the mark YELLOW in respect of, among other things, online and print phone directories. Each of the applicants (respectively PDCA and Yellowbook), was unsuccessful in opposing Telstra’s application before the Registrar. Yellowbook also appealed the delegate’s decision to allow Telstra’s opposition to Yellowbook’s own application for YELLOWBOOK for the same goods and services. Murphy J dismissed all three appeals.

Telstra has been producing print directories with yellow pages, and calling them “Yellow Pages” since 1975. The evidence was that this was in keeping with international trends at the time.

Telstra registered YELLOW PAGES as a composite mark in 1977 and a standalone mark in 1990. On 25 July 2003, Telstra applied for YELLOW as a word mark (i.e. the mark in suit), but the application appears to have been quiescent for some time and was not accepted for registration until the end of 2007.

His Honour reviewed the (voluminous) evidence as to Telstra and other traders’ use of marks containing...
YELLOW as an element and/or the colour yellow before and after the lodgement date. He concluded that, prior to the lodgement date, other traders in Australia and overseas commonly used the colour and word yellow in respect of print and online directories. That conclusion was unsurprising, given that the evidence established that when Telstra adopted the colour yellow in 1975, and certainly by 1986, yellow had become the worldwide industry standard colour for business directories. Justice Murphy held that the YELLOW mark has no inherent adaptability to distinguish Telstra’s relevant goods and services; it is descriptive of the colour commonly used for Australian and overseas directories, and properly motivated traders are likely to want to use it in a manner that would otherwise infringe the mark if registered. Even though the mark in suit was for the word and not the colour, his Honour found it difficult to draw a distinction between a word describing a primary colour and the colour itself on the question of inherent capacity to distinguish; the word and the colour could not be “cleanly separated”. His Honour disagreed with Telstra’s contentions that YELLOW was an arbitrary word (especially when applied to services) and that its YELLOW PAGES marks had served to protect “yellow” from becoming generic in the context of directories. The evidence referred to above pointed to a contrary conclusion. Further, it did not matter that other traders not did have to use the word or colour yellow to describe a business directory, it was sufficient that innocent traders might want to, and in this case there were utilitarian and economic benefits of having a directory printed on yellow paper.

The key issue then was whether Telstra could satisfy the Court that the mark in fact distinguished Telstra’s goods and services as at the lodgement date: s.41(6) of the Trade Marks Act (as at 25 July 2003). His Honour held that it failed to do so. Although the question was not clear cut, his Honour was not satisfied that prior to 25 July 2003 Telstra had used YELLOW as a standalone word mark. Even if it had, that use was insufficient to give rise to a secondary meaning that would distinguish Telstra’s products by the lodgement date, and that separate use would have been diluted in the minds of consumers by Telstra’s widespread use of the YELLOW PAGES mark.

Mindful of the prospects of an appeal, Justice Murphy also addressed the s.41(5) point (should he be wrong that s.41(6) applied), namely whether as at the lodgement date YELLOW did or would distinguish, taking into account a partial inherent adaptation to distinguish, Telstra’s actual and/or intended use of the mark, and any other circumstances. Apart from considering the matters referred to above, his Honour also considered Telstra campaign, commenced in May 2006, to “refresh” its branding by using YELLOW as its overarching mark. The evidence indicated, however, that that campaign had had limited success in transferring consumer recognition of YELLOW PAGES as a badge of origin for Telstra’s product to YELLOW, and in 2009 Telstra reverted to YELLOW PAGES as its principal brand.

His Honour also addressed the applicants’ s.44 grounds, and concluded that YELLOW was deceptively similar to prior third party registrations present at the lodgement date, including THE YELLOW ENVELOPE, YELLOW ZONE and YELLOW DUCK. Somewhat ironically, Telstra’s arguments to persuade the Court otherwise ran contrary to its own submissions opposing registration of Yellowbook’s YELLOWBOOK mark. His Honour rejected PDCA’s s.59 ground, however, as he was satisfied that as at the lodgement date Telstra intended to use the YELLOW mark at some point in the future.

As at the date of writing, it is unclear whether Telstra intends to appeal the decision.

Seafolly Pty Ltd v Fewstone Pty Ltd
[2014] FCA 321
(1 April 2014)

Copyright – fabric and embroidery designs used as “inspiration” – whether a substantial part taken – whether embroidery a “corresponding design”

This was a claim of copyright infringement brought by Seafolly in respect of three artistic works printed on fabric used to manufacture various products of Seafolly’s swimwear and beachwear range. It alleged that certain artwork of a similar nature used by the respondent (trading as City Beach) on its products reproduced a substantial part of those works and that reproduction was not the result of independent creation.

The first two of the works in suits were floral designs, and the corresponding alleged infringing artwork were thematically similar but not exact copies. City Beach conceded, however, that it used Seafolly products bearing the works in suit as “inspiration” to create the alleged infringing works. The evidence revealed various communications
between City Beach and a contracted design company that included images of Seafolly’s products for use as “inspiration” and instructions that City Beach wanted something “similar” or with the same “look and feel”. In respect of one of the floral works, the design company described an early draft of the corresponding City Beach design as a “Seafolly knock off” and raised the possibility of Seafolly reacting (presumably in the manner in which it did). The design company was instructed to make changes to that design to distance it from the Seafolly work, but some of those changes were later reversed at City Beach’s behest.

City Beach denied infringement on the basis that there was no sufficient objective similarity between the two sets of works. City Beach also asserted that Seafolly’s works “appeared from a crowded field of prior art” and were not original so far as the works were reproduced by City Beach’s artworks, such that no substantial part had been taken. Further, City Beach submitted that any originality of the Seafolly works was limited to their collocation of features which, individually, were unoriginal, commonplace and derived from the “prior art” to which the fashion industry, including Seafolly, looked for inspiration; any individual elements in the Seafolly works were unoriginal and hence unprotected. Putting the same considerations another way, City Beach argued that at best it had taken the (unprotectable) idea of the works in suit, not their form of expression.

City Beach also submitted (perhaps ambitiously) that infringement of an artistic work required an exact or faithful reproduction of a substantial part of the artistic work, because the exclusive rights comprised in copyright in an artistic work do not include the right of adaptation (unlike literary, dramatic and musical works). Justice Dodds-Streeton rejected that argument, noting that it was contrary to well-established principles and would unduly narrow copyright in artistic works.

The third work in suit was an embroidery design of alternating and adjoining large and small diamonds. The evidence was that City Beach’s Chinese clothing developer was instructed to use that same pattern for City Beach’s product. In addition to the arguments referred to above, City Beach denied infringement of that work on the basis that the embroidery applied to Seafolly’s products was a corresponding design within the meaning of s.74 of the Copyright Act 1968 (Cth).

Justice Dodds-Streeton held that each of the three Seafolly works had been infringed by City Beach reproducing a substantial part of the works or authorising the same. Her Honour noted that a substantial part can be a “feature or combination of features abstracted from the work”. Her Honour discerned an objective similarity in each case, and in the case of the embroidery patterns these were “manifestly similar”. In the case of the floral prints, her Honour held that the elements and combination cumulatively comprised a qualitatively and quantitatively substantial part of those works. Her Honour also was not persuaded that those elements were commonplace or derived from other works. In contrast, for one of the works City Beach had intended to make use of Seafolly’s works and was aware of the risk of infringement but “did not hesitate to cross that line”.

In relation to Seafolly’s embroidery pattern, her Honour found that there was no relevant corresponding design once it was applied to a garment. The features of “shape and configuration” were not “embodied” in the garment in the requisite sense. There was also some doubt as to whether such a pattern could be said to be three dimensional.

Her Honour ordered that City Beach pay $80,333 in damages for lost profits, a further $20,000 in compensatory damages for damage to Seafolly’s reputation and $150,000 in additional damages.

**Damorgold Pty Ltd v JAI Products**

[2014] FCA 150

(28 February 2014)

Patents – method of manufacture – whether claims a “mere collocation” of integers – novelty – anticipation by respondent’s prior display and sale of competing products

The applicants (Damorgold) were the owner and exclusive licensee of a patent for a spring-assisted blind mechanism, which had a priority date of 25 August 1999. The issue of the licensee’s right to relief was stayed. Damorgold claimed that JAI Products had infringed a suite of claims of the patent and JAI Products asserted that the patent was invalid. In the end, Middleton J found two claims infringed and valid.

On the question of infringement, the claims of the patent were to a roller blind mechanism that included a feature known as a “spring assist”. JAI Products sold spring assists in circumstances where their only reasonable use was as a component of
an infringing roller blind mechanism and with instructions to use the spring assists in that manner. Middleton J found that the sale of a component in such circumstances constituted an infringement pursuant to s.117 of the Patents Act. While Middleton J did not cite authority in support of the proposition that the “product” in s.117 of the Patents Act can include a component of the claimed invention, that finding, with respect, appears correct.

The question whether sale of a component of the claimed product can satisfy s.117 was touched upon in Great Western Corporation Pty Ltd v Grove Hill Pty Ltd [2001] FCA 423; at [33]–[35], where it was argued that the sale of a product in separate (but all) parts could not infringe pursuant to that section. Kiefel J observed that there was nothing in s.117 to suggest such a limitation is necessary. The appeal from that decision did not clarify the point any further.

Justice Jagot in Beadcrete Pty Ltd v Fei Yu trading as Jewels 4 Pools (No 3) [2013] FCA 187 found that the respondent had infringed a product claim (see [142]) pursuant to s.117 of the Act, notwithstanding that the respondent supplied only part of the claimed product with instructions to add the missing integer, there “cementitious material”. Her Honour observed at [128] that: “The fact that the respondents supply only the glass beads and Geo Polymer is not to the point. The respondents direct the use of those products with cement, which is a “cementitious material” within the meaning of the claims of the patent.

This approach also appears to be consistent with the recommendations of the Industrial Property Advisory Committee, whose recommendations led to the inclusion of s.117 in the 1990 Act. Their report recommended that infringement should be found where “goods, materials or parts are supplied to a consumer with the intention that they be used, consumed or assembled in a way which constitutes an infringement of a patent”.

Middleton J also found that JAI Products infringed two claims of the patent by authorising its customers to use the spring assists in a way which would infringe those claims. Section 13 of the Patents Act includes, as an exclusive right of the patentee, the right to authorise others to exploit the patent. His Honour found that since authorising third parties in an infringement context has the same meaning as in copyright law, it followed that authorising included “granting or purporting to grant the right to do acts which exploit the patent” which his Honour found had occurred by supplying spring assists which had only one reasonable use (the infringing use) and with instructions to infringe.

His Honour’s broad interpretation of what might constitute “authorisation” would, with the greatest of respect, leave very little for s.117 of the Act to do, especially where the product has only one reasonable use. The writers observe that there has been some difference of opinion as to whether the meaning of “authorise” in the Copyright Act is the same as that in the Patents Act and what test should be applied to determine whether an act constitutes authorisation. Nevertheless, the Full Court in Bristol-Myers Squibb Co v F H Faulding & Co Ltd [2000] FCA 316; (2000) 97 FCR 524 has made the obiter observation that the term “authorise” should be taken by analogy to have the same meaning as in the Copyright Act and recent single judge authority has certainly followed that view.

Middleton J also found that JAI Products would be liable as a joint tortfeasor for infringement of the Patent, adopting the Full Court’s reasoning in Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd (1999) 164 ALR 239 that the supply of equipment with instructions demonstrating use in an infringing manner amounts to procuring resulting infringements.

As to validity, JAI Products succeeded in establishing that many (but not all) of the claims lacked novelty. Middleton J considered the extent of disclosure made by the display and offering for sale in Australia of a RolaShades product and publication of depictions of that product.

His Honour found that the displayed RolaShades could have been “readily pulled apart” by JAI Products staff to demonstrate how they worked and as such, customers had the opportunity to examine the relevant workings of the RolaShades. Given that no restrictions were placed on what any potential customer might do with the information gained from such an inspection, there was a relevant publication of that information for the purposes of assessing novelty. Importantly, it did not matter that few potential customers ever had the opportunity to examine the RolaShades or that no actual disassembly or sale occurred.

As to the depictions of the RolaShades product, the “exploded” view and pictures of the product in a catalogue did not adequately disclose the relevant
workings of the product. Further experimentation would be required to properly understand those workings and without that information, there was no anticipation of the claims of the patent.

JAI Products also asserted that the claimed invention was not a manner of manufacture. JAI Products argued that certain claims of the patent were ‘a mere collocation’ of integers where they included a component of ‘unitary construction’ which had no discernable interaction with other integers in the claim. JAI Products had the onus of establishing this ground and his Honour found that JAI Products had failed to prove that the components of unitary construction had no desirable function or purpose or failed to interact with other integers of the claims.

_Damorgold Pty Ltd v JAI Products (No 2)_[2014] FCA 377
(14 April 2014)]

Patents – whether a patentee must amend to deal with invalidity in order to obtain injunctive relief

Following on from his Honour’s decision reported above, JAI Products asserted that, because the only patent claims upon which Damorgold succeeded were dependent on claims that had been found invalid, it was necessary for Damorgold to amend the patent pursuant to s.105 of the Patents Act before it was entitled to an order for injunctive relief. JAI Products plainly wished to argue that the Court should exercise its discretion not to amend the patent because of culpable delay or the like. Damorgold had not made an application pursuant to s.105 of the Act to amend the patent and indicated that it had no intention of doing so. It asserted that certain claims had been found valid and infringed and that was enough for it to be entitled to injunctive relief. Middleton J agreed and so ordered.

His Honour observed that there has been no suggestion that the two claims had, by incorporating by reference the preceding claims, lacked sufficient clarity so as to make them invalid. He concluded that those claims ‘were and will still be able to be read and understood in conjunction with the claims which have been held to be invalid. No interested party reading the public Register, with notification of the Court orders, will have any doubt as to the claim of the monopoly in claims 23 and 27, which they will still be able to read in conjunction with the wording of the other claims’.

Turning to costs, JAI Products asserted that it had been successful in invalidating a majority of the claims and only found to infringe two valid claims and therefore it should pay 20 percent of the Damorgold’s costs on infringement and Damorgold should pay 80 percent of JAI Product’s costs. Middleton J found that effective resistance to the infringement claim was essentially JAI Products asserting invalidity and that, while it received a favourable outcome in relation to all but four claims, it failed in its ultimate endeavour to avoid being found to have infringed. Further, Damorgold had not unreasonably contested the invalidity case. As such, JAI Products was ordered to pay Damorgold’s costs.

_AstraZeneca AB v Alphapharm Pty Ltd_[[2014] FCA 9
23 January 2014]

Patents – pre-action discovery – discoverability of delivery samples

AstraZeneca is the patentee of a proton pump inhibitor marketed in Australia as NEXIUM as a treatment for gastric reflux and other stomach acid problems. In late 2013, it sought and obtained pre-action discovery of certain documents submitted by Alphapharm to the Therapeutic Goods Administration in relation to a product, NOXICID, that treats similar conditions. By the present application, AstraZeneca sought pre-action discovery of other documents submitted to the TGA and supporting documentation, and delivery of samples of various NOXICID products.

Justice Besanko accepted AstraZeneca’s expert’s opinion that the original set of discovered documents was insufficient to allow a firm conclusion on key aspects of the process by which the active ingredient in NOXICID was created. His Honour also cited with approval the Full Court’s decision in _Optiver Australia Pty Ltd v Tibra Trading Pty Ltd and Others_ [2008] FCAFC 133, (2008) 169 FCR 435 (a decision under the previous Federal Court Rules), to the effect that an application for pre-action discovery is not defeated simply because an applicant has enough information to craft a “pleadable case”; a person may have a pleadable case, but still not sufficient information upon which to decide whether the cost and expense of litigation is worthwhile.

In relation to the application for delivery of samples, however, his Honour declined to make the orders sought by AstraZeneca. AstraZeneca’s expert
conceded that he would require further information to formulate a testing protocol, and accordingly his Honour was not satisfied of the utility and time and costs involved in the testing of samples of the NOXICID products. It appears, however, that it would be open for AstraZeneca to revisit that application once it has had the opportunity to digest the additional documents ordered to be discovered by Alphapharm.

**Tyler v Sevin**

[2014] FCCA 445  
(26 February 2014)

Copyright – unlicensed online use of stock photograph – additional damages

Mr Tyler is a Hawaii-based photographer who sells and licenses his works as stock photographs. The respondent is a travel agent whose business is conducted over the internet. She used one of Mr Tyler’s photographs without obtaining a licence from him, and rather than take down the image when confronted with her conduct sought to blame an unnamed web developer. Ms Sevin did not file a defence or otherwise participate in the proceedings. The copyright infringement claim was straightforward, and Mr Tyler was awarded US$1,850 (reflecting his usual licence fee).

In relation to Mr Tyler’s claim for additional damages, his Honour felt that the flagrancy of the infringement was at the lowest end of the scale, and noted that it “would not be unreasonable to say that there are many people utilising images for which they have no licence, without realising the gravity of the situation”. His Honour went on, however, to signal that the present case “will be important because, through it, it will be made clear that this conduct cannot continue”. He awarded Mr Tyler a further $12,500 in additional damages and costs of $9,500, both of which eclipsed the general damages award.

And in Other News...

  In the last issue, we reported that the assignee of certain rights to an invention used to manufacture clean skin spirits obtained a declaration in the Federal Court that the registered proprietor of the corresponding patent held that patent on trust for itself and the applicant as co-owners in equity: *Neobev Pty Ltd v Bacchus Distilleries Pty Ltd* (Administrators Appointed) [2014] FCA 4. Nevertheless, Bacchus’s administrators wished to sell the patent (along with Bacchus’s other assets) and sought declarations in the Supreme Court of Victoria that they were entitled to sell the patent and give Bacchus priority over Neobev when applying the proceeds from the sale. The administrators successfully established a power of sale under various bases, but failed to establish that Bacchus or the administrators would enjoy any priority over any claim of Neobev to a share of the proceeds. Justice Judd also concluded by noting that the administrators’ success in making out a right to sell the patent was “not to be taken as authorisation that they may do so”. Neobev’s “very real interest” in the sale process (including as to allocation of price between Bacchus’s assets, including the patent) meant that continuing supervision by the Court was required.

- **Bugatti GmbH v Shine Forever Men Pty Ltd (No 2)** [2014] FCA 171 (7 March 2014) Bugatti successfully established that the respondent, in marketing clothing and accessories under the marks BUGATCHI or BUGATCHI UOMO, had infringed Bugatti’s BUGATTI mark, and elected for an account of profits. After being ordered to file relevant financial information, the respondent filed largely deficient affidavit evidence in support of the proposition that it had made no profit during the relevant two year period and then failed to appear at the hearing. Even working with the respondent’s objectionable and inadequate affidavit material, Bugatti was able to satisfy the Court that the respondent plausibly had made at least $550,000 in profit, and obtained an order in its favour accordingly.

- **Agapitos v Habibi** [2014] WASC 47 (25 February 2014)
  A Western Australian dentist who had managed to register DENTAL EXCELLENCE as a trade mark (and also traded under that name) bit off more than he could chew when he sued a South Perth dentist trading under the name “South Perth Dental Excellence” for trade mark infringement, passing off and misleading and deceptive conduct. The Court was not convinced that members of the public identified the words “Dental Excellence” with the plaintiff’s business (thereby defeating the passing off claim), and was not persuaded
that the phrase had acquired distinctiveness or a secondary meaning in the minds of the public (thereby defeating the misleading and deceptive claim in respect of what was plainly an “eloquently descriptive trade name”). Further, the Court held that the defendant’s counterclaim for rectification was made out as the plaintiff’s mark was not inherently distinctive, and ordered that it be cancelled.

- *Caffell & Falcon* [2014] FamCAFC 34 (26 February 2014)
The appellant in a Family Court matter sought to challenge the trial Judge’s reliance on the report of a psychologist. Although his report primarily was based on his counselling sessions with the parties and their child, the psychologist also may have been provided with, and read, reports given to him by the respondent. The appellant contended that in so doing, the respondent had breached the *Copyright Act*. In considering whether that translated into an appealable error on the part of the trial Judge, the Court described the appellant’s claim as “specious”.  

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

NEW SOUTH WALES

Simon Reynolds  
Davies Collison Cave  
Correspondent for New South Wales

*MPEG LA, LLC v Regency Media Pty Ltd*  
[2014] FCA 180

**Patents – statutory right to terminate a contract related to a patent invention**

In 2009, MPEG LA, LLC (MPEG) and Regency Media Pty Ltd (Regency) entered into a Patent Portfolio Licence (PPL) Agreement. The PPL Agreement granted rights in respect of “MPEG-2 Decoding Products”, “MPEG-2 Encoding Products” and “MPEG-2 Packaged Medium” which were covered under various patents, including a number of Australian patents.

The effect of the PPL Agreement was to facilitate the manner in which a variety of products may be made available by means of individual licensees approaching a Licensing Administrator, in this case MPEG, with the view to acquiring entitlement to use the patents provided in a patent pool.

On 5 July 2012, Regency terminated the PPL Agreement. Regency asserted that it was entitled to terminate the PPL Agreement in accordance with s.145 of the *Patents Act 1990* (Cth) (the Act).

Section 145 of the Act provides as follows:

**Termination of contract after patent ceases to be in force**

1. A contract relating to the lease of, or a license to exploit, a patented invention may be terminated by either party, on giving 3 months’ notice in writing to the other party, at any time after the patent, or all the patents, by which the invention was protected at the time the contract was made, have ceased to be in force.

2. Subsection (1) applies despite anything to the contrary in that contract or in any other contract.

MPEG and Regency were in dispute with regard to the phrase “patented invention” of s.145 of the Act. The phrase “patented invention” is not defined in the Act.

Regency contended that each of the patents which was the subject of the PPL Agreement constituted a separate “patented invention” and that the PPL Agreement could be terminated once any one of those patents ceased to be in force. At the date of termination of the PPL Agreement by Regency in July 2012, some of the Australian patents had expired and some of the Australian patents were still in force which related to the PPL Agreement.

MPEG contended that there were three patented invention in relation to the patents of the PPL Agreement, namely: (1) the MPEG-2 Decoding Products; (2) the MPEG-2 Encoding Products; and (3) the MPEG-2 Packaged Medium. Furthermore, MPEG contended that in the event that each were considered a patented invention, s.145 could only be invoked when all the patents had expired.

Flick J indicated that s.145 of the Act had received little judicial consideration. His Honour was of the opinion that it was clear that the intention of s.145 was to prevent a patentee from taking unfair advantage of the statutory monopoly conferred by a patent after it has expired.

His Honour favoured the approach put forward by MPEG in relation to the construction of s.145. His Honour concluded that s.145 makes clear that
the “patented invention” to which it refers may be one that is protected by more than one patent. It was accepted that the MPEG-2 Decoding Products, the MPEG-2 Encoding Products and the MPEG-2 Packaged Medium products each constituted a patented invention. His Honour concluded that each of these matters are a manner of new manufacture for the purposes of the definition of “an invention” in Sch 1 of the Act. Specifically, his Honour noted that this definition is directed toward the subject matter of the “invention” and not to the number of patents which may protect the “invention”.

His Honour also indicated that courts should be “slow to prefer a construction which would permit the termination of an agreement in respect to a patent which has not ceased to be in force and would deny a patent holder the benefit of the payment of royalties in amounts that have been the subject of agreement”. However, his Honour expressed doubt that s.145 was drafted to take into consideration patent pools and suggested that amendments to s.145 should be considered in the future to address the more recent commercial development of jointly administered patent pools.

His Honour concluded that s.145 conferred no right upon Regency Media to terminate the PPL Agreement as at 5 July 2012. Section 145 should be construed as only permitting a party to the PPL Agreement to terminate it where all of the patents in respect to each of the three patented inventions have ceased to be in force.

Warner-Lambert Company LLC v Apotex Pty Ltd
[2014] FCA 241

Patents – application by patentee for interlocutory injunction

Introduction

Warner-Lambert Company LLC (Warner-Lambert), a member of the Pfizer group of companies, sought interlocutory relief to restrain threatened infringement by Apotex Pty Ltd (Apotex) in relation to Australian Patent No. 714980 (the Patent).

The Patent related to the use of certain compounds, including pregabalin, for the treatment of pain and in the manufacture of medicines for the treatment of pain.

Pfizer Australia Pty Ltd is the exclusive licensee of the Patent. One of Pfizer’s leading pharmaceutical products in Australia is Lyrica which contains pregabalin. Lyrica was registered on the Australian Register of Therapeutic Goods (ARTG) in 2005. The indications which Lyrica are reported on the ARTG are: (1) for the treatment of neuropathic pain in adults; and (2) as adjunctive therapy in adults with partial seizures or without secondary generalisation. Lyrica was not listed on the Commonwealth Pharmaceutical Benefits Scheme (PBS) until March 2013, and when registered, was only listed for the treatment of neuropathic pain.

Apotex obtained regulatory approval in 2012 for a number of pharmaceutical products (the Apotex Products) containing pregabalin. The initial ARTG registration for the Apotex products included indications for both the treatment of neuropathic pain and seizures. However, in October 2013, the registered indications for the Apotex products were amended to delete the indication relating to neuropathic pain, thus only retaining the seizure indication. Warner-Lambert was informed by Apotex that the Apotex products were to be launched on or after 14 March 2014.

Arguments and Decision

Warner-Lambert argued that pharmacists could substitute Apotex products for Lyrica, for private prescriptions, for the treatment of pain. In particular, Warner-Lambert argued that pharmacists would be aware that the Apotex products were previously listed on the ARTG for the treatment of pain and were also aware that the Apotex products were bioequivalent to Lyrica.

Warner-Lambert also argued that due to there being no market in Australia for the use of pregabalin in the treatment of seizures due to there being cheaper alternative medicines on the market, Apotex had the belief that the Apotex products would be substituted for Lyrica for the treatment of pain.

Warner-Lambert also argued that letters proposed to be sent by Apotex to medical practitioners and pharmacists indicating that the Apotex products were not to be used for the treatment of neuropathic pain would have no effect in deterring pharmacists from the substitution.

Warner-Lambert further suggested that if relief was not granted, it would be extremely difficult to calculate damages if the Patent was later found to have been infringed by Apotex.

Griffith J was of the opinion that Warner-Lambert did not have a prima facie case that the Apotex products would infringe the Patent in relation to
s.117(1) and s.117(2)(b) of the *Patents Act* 1990 (Cth).

His Honour did not agree with Warner-Lambert’s assertion that there was essentially no market in Australia for pregabalin for the seizure indication. His Honour highlighted Pfizer's unsuccessful application in 2005 to have Lyrica listed on the Schedule of Pharmaceutical Benefits (SPB) for the treatment of seizures as an indicator that there indeed was a potential market in Australia.

His Honour also concluded that there was no evidence to suggest the extent, if any, of pain indications that were outside the neuropathic pain indication but within the claims of the Patent. Therefore, his Honour concluded that the size of the non-PBS pain market could not be reliably assessed.

In addition, his Honour was of the opinion that Apotex's letters to be sent to medical practitioners and pharmacists contradicted Warner-Lambert’s assertion that Apotex had the belief that the Apotex products would be substituted for Lyrica for the treatment of pain.

His Honour concluded that there was no evidence to suggest that pharmacists would be undeterred from substituting the Apotex products based upon their knowledge of their bioequivalence with Lyrica and the previous ARTG indication.

His Honour also concluded that the evidence suggested that there would be greater difficulty in estimating Apotex's damages if Apotex were restrained compared to determining Warner-Lambert’s damages if relief was not granted and Apotex was eventually found to have infringed the Patent.

Based on these reasons, his Honour refused the application for interlocutory relief in relation to the Apotex products for the treatment of seizures. His Honour, however, ordered that Apotex be restrained in relation to any product containing pregabalin which is indicated for the treatment of neuropathic pain in adults.
Case Law Developments

Construction and Infringement of Patent for Portable Cooker

Doug Andrews Heating and Ventilation Limited & Anor v DIL & Ors

High Court of New Zealand

7-11, 14, 15 and 18 October, 12 December 2013

Allan J.

[2013] NZHC 3333

This decision relates to a patent for a portable cooker (to replicate traditional Maori hangi or pit cooking). The case involved construction of claims and then a counterclaim for revocation asserting lack of novelty and obviousness. The decision also includes some interesting observations on the availability of a claim for threats where infringement proceedings have issued.

Facts

The first plaintiff was the owner of a patent covering portable hangi cookers (the patent), with the second plaintiff being its exclusive licensee.

The first plaintiff was granted its patent for a portable hangi cooker on 12 January 2000, with a priority date of 21 October 1998. The first plaintiff's portable hangi cookers (which were first marketed from 1999 onwards) became a commercial success. The second plaintiff was incorporated in 2004 to undertake the business of selling the cookers.

In 2008, the plaintiffs first noticed a competing cooker on the New Zealand market, being the UFO cooker manufactured and marketed by the defendants.

The defendants denied infringement, alleged unjustified threats of patent infringement (for which they sought an inquiry as to damages). They also brought a counterclaim seeking revocation of the patent (alleging lack of novelty and obviousness).

The first defendant, Mr Dil, was experienced in the cutting and fabricating of metal. While working as an apprentice fitter and welder, he used to construct metal cookers out of old beer kegs. All of these were made to steam or smoke food. In 2008, Mr Dil decided to go into the business of making and selling cookers. His evidence was that, at the time, he was not aware of the first plaintiff or its cookers or the patent. He met the second defendant, Mr Mitchell, who agreed to invest in a proposed business (the third defendant company). This commenced manufacturing, marketing and selling UFO cookers.

In 2009, the plaintiffs purchased a sample of the defendants' UFO cooker and proceedings were commenced in August 2009, alleging infringement of the patent.

Construction

Claim 1 of the patent was the only independent claim. The defendants contended that, on a true construction, claim 1 did not extend to a cooker in which the cooking chamber or other food receptacle formed part of the lower section of the interchangeable parts. Rather, the plain language of claim 1 described a cooking apparatus in which the lower part comprised the heating source and plate means and the upper part comprised a cooking chamber.

Infringement

The plaintiffs' claim (on filing the proceedings) was that the defendants' single-tier UFO cooker (without any extension) infringed the patent. By trial, the plaintiffs accepted that the infringement occurred only when the defendants' UFO cooker was sold with an extension or when an extension was sold for the purpose of expanding the capacity of the defendants' single tier cooker. The principal argument for the plaintiffs was that claim 1 was infringed once the UFO extension was added because, when that occurred, the particular cooking...
chamber envisaged in claim 1 arose. The plaintiffs argued that this was because a larger chamber was formed for the inter-engaged upper and lower parts of the cooker.

The defendants contended that, even with an extension fitted, their cooker did not infringe because the lower tier of the UFO cooker comprised provision for heat source, plate means and a cooking chamber, whereas the invention as claimed omitted a cooking chamber in the lower part.

Counterclaims

The defendants sought revocation of the patent alleging that, so far as was claimed in any claim in the complete specification, the invention lacked novelty or was obvious and did not involve any inventive step.

As to lack of novelty, the focus was ultimately on three pieces of prior art, the Hartwell cooker, the Richardson A6 cooker, the Hakaraia cooker and the Dil drawings.

The pleadings as to obviousness claimed common general knowledge (as listed in the judgment). However, the defendants did not lead any expert evidence as to what common general knowledge existed as at the priority date or as to what the skilled addressee would have thought or done.

Allan J held, finding no infringement and dismissing the counterclaims:

Construction

(1) Claim 1 extended protection to a hangi cooker in which only the second part comprised a cooking chamber. Although there were references in the specification to the use of the hot plate (in the lower portion) for direct cooking purposes, no claim based on that function found its way into claim 1. It was the claims themselves that were crucial. [55] and [57].


Infringement

(2) The second part (or extension) of the UFO cooker did not create or comprise a cooking chamber at all. Rather, it extended the cooking chamber which formed part of the first part – so, it acted as an extension to the food housing already defined by the first part. A purposive reading of claim 1 made it clear that it was confined to cooking apparatus in which the cooking chamber in its entirety was comprised within the second upper part. [62]. The UFO cooker, inclusive of one or more extensions, did not infringe claim 1. Further, it had not been argued that any one or more of the remaining claims were capable of justifying an infringement finding. The plaintiffs therefore failed to make out their infringement claim. [67].

Revocation Counterclaim: Lack of Novelty

(3) The Court was not satisfied that the Hartwell cooker, the Richardson A6 cooker or the Hakaraia cooker constituted prior art. [111], [123] and [129]. Further, the Dil drawings and Mr Dil’s evidence about having built multi-tier cookers were of negligible evidential value. Much more was required of a party who sought to revoke a patent on the ground of want of novelty. [137].


Revocation Counterclaim: Obviousness

(4) Applying the four-step approach to determining obviousness:

(a) The inventive concept in the patent was the element of interchangeability which separated the cooking chamber in the upper part from the heat source and plate means in the lower part with consequential practical advantages as set out in the complete specification. [151].

(b) There was no reliable evidence that it was common general knowledge that cookers had one or more removable stacks and that they were able to be assembled and disassembled. [153]. There was no evidence to suggest that, as the priority date, any of the witnesses felt the need to redesign their cookers. [154], or that anyone was contemplating research or investigations that might lead down a path similar to that trodden by the inventor, Mr Andrews. [155].

(c) The principal difference between the common general knowledge and the
patented invention was the separation of the cooking function from the remainder and the provision of inter-engangeable parts. [157].

(d) As to whether the differences were obvious or required any degree of invention, the Court was satisfied that a degree of invention was required and that obviousness had not been made out. [158]. The Court was entitled to take into account as secondary evidence the commercial success of the invention. There was substantial evidence that this had been markedly successful. [160].


(5) Ordinarily the Court would need to consider each individual claim. It was not feasible to undertake such an exercise in this case because:
(a) The necessary element of inventiveness was found in claim 1.
(b) The plaintiffs did not suggest that any of the remaining claims, standing alone, required an inventive step. [166].

In any event, claim analysis required the assistance of expert evidence and it would not be satisfactory for the Court to undertake an obviousness assessment for claims 2-20 on the basis of what would be little more than judicial impression.

Groundless threats

(6) The legislative purpose behind s.74 of the Patents Act 1953 is to enable an alleged infringer (or other party aggrieved) to bring the question of an alleged infringement to a head by issuing proceedings and thus avoiding a situation in which a threat is hanging over its head for a significant period. [173] and [177].


(7) If the threat to issue proceedings is made good and proceedings actually issue then the predecessor threats are of historical interest only. [177]. Here, proceedings were issued by the plaintiff and the right to take proceedings for threats under s.74 therefore lapsed. It made no difference that the plaintiff might have changed tack in mid-stream with respect to the ambit of the alleged infringement. Once proceedings commenced the in terrorem element dissipated.

(8) On the facts:
(a) A notice placed in The New Zealand Herald was long after proceedings commenced. [182].
(b) Threats made to customers of the third defendant were after proceedings commenced. [183] and [184].
(c) A statement in a letter from the plaintiffs’ patent attorney was a threat. [187] and [188].

However, given that the plaintiffs had actually issued proceedings, no claim under s.74 was established. [191].

1 A hangi is a traditional Maori cooking pit whereby stones are placed in a pit, a fire is built to heat the stones, food is wrapped in wet cloth and baskets which are then placed over the stones, the food is covered and left to cook for a period of hours.
Hong Kong and China

Gabriela Kennedy, Partner, and Eugene Low, Senior Associate
Mayer Brown JSM

Correspondents for Hong Kong and China

Hong Kong Court Calls for Proactive Measures Against Shadow Companies

In two recent Hong Kong cases, Power Dekor (Hong Kong) Ltd v Power Dekor Group Co Ltd [2014] 1 HKLRD 845 and Exxon Mobil Corporation v USA Exxon Mobil Oil Limited & Others (HCA 2188/2013), Zervos J of the Hong Kong Court of First Instance re-opened the debate about shadow companies in Hong Kong. Despite changes to the Companies Ordinance in 2010, aimed specifically at dealing with the shadow companies problem, Zervos J’s judgments in effect expressed the view that the amendments do not adequately deal with the problem and called for proactive measures to be taken by the Companies Registry of Hong Kong to deal with the root of the problem.

The two cases involved similar factual and legal issues. In each case, the claimant had an established reputation in Hong Kong, whereas the defendant was an unrelated company incorporated in Hong Kong with a name very similar to the claimant’s household brand. The defendants were typical “shadow companies” in Hong Kong which exhibit the following characteristics:

• These companies are largely inactive and do not have substantial business activities in Hong Kong.
• Their directors and shareholders typically reside overseas, very often in the People’s Republic of China.
• They engage secretarial companies based in Hong Kong to serve as their company secretary.
• They use the address of their company secretary as their registered office address.
• Many of them use or are suspected to use their Hong Kong company name as a front to give legitimacy to infringing activities taking place in the People’s Republic China or overseas.

Under the current company registration regime in Hong Kong, the Companies Registry is not required to examine a proposed company name at the time of incorporation of the company to see if it may conflict with another person’s rights to the name (or part of it). Unless the proposed company name is identical to an existing Hong Kong company name or contains restricted words such as “bank” or “trust”, the Companies Registry will not raise any objection and will approve the proposed name.

If a trade mark owner objects to a new company name that has been approved by the Companies Registry, it is essentially left with two options: (i) to complain to the Companies Registry (within 12 months of the incorporation of the company) on the ground that the company name adopted by the newly incorporated company is too alike the name of an existing company in Hong Kong; or (ii) to commence civil proceedings in Hong Kong on the grounds of passing off (and possibly trade mark infringement if the defendant company uses an identical or confusingly similar mark in the course of trade in Hong Kong).

Prior to the amendment to the Companies Ordinance in 2010, pursuing option (ii) involved a quite expensive and complex process. While a large number of these lawsuits ended up with a default judgment in favour of the claimant, the judgment would not automatically lead to a change of name of the shadow company, given that the Companies Registry did not have power to act upon a court order to enforce a name change in the event that the defendant failed to comply. The only effective solution that led to an eventual change of the company name involved joining the shareholders of the shadow companies as parties to the proceedings and seeking an order from the court that the claimants’ solicitors be authorised to sign a special resolutions on behalf of the shareholders to effect a name change, in the event they failed to comply. These extra steps took time and incurred costs for the claimants, especially as typically the shareholders of shadow companies reside overseas and provide fake addresses making service of process difficult and expensive.

As a result of joint lobbying by the IP community and the Companies Registry, changes to the Companies Ordinance were made in 2010 in advance of the major overhaul of the Companies Ordinance in 2014. The 2010 amendments deal with the enforcement of judgments against shadow companies when only the company and not the shareholders also are sued. They give the Companies Registry the power it did not have prior to 2010 to act upon a Hong Kong court order to direct a shadow company to change its company name to one not including the objectionable name.
Current Developments – Asia

or mark. If the shadow company fails to comply, the Companies Registry will then proceed to replace the objectionable part of the company name with its registration number. The amendment, however, does not deal with the root of the problem which is the incorporation of companies which adopt company names that incorporate a third party's trade mark.

Zervos J seized upon this in the two recent cases. He expressed concern over the fact that the defendants were able to register the companies successfully with the Companies Registry despite having names so similar to some well-known brand names or trade marks. The learned Judge commented that the unscrupulous individuals behind these shadow companies might be able to use the fact of incorporation to pass themselves off as the claimants in their business pursuits in the People's Republic of China to deceive potential customers.

The learned Judge acknowledged the changes brought about by the Companies Ordinance amendment of 2010, but felt that the legislative provisions do not go far enough to deal with the problem. Zervos J called for greater scrutiny in the approval process, as well as legislative changes enabling the Companies Registry to take more effective measures, including the power to refuse the adoption of a company name that incorporates a third party's trade mark or to deregister a company name that is the same as or too like another. In Power Dekor, Zervos J directed that a copy of his judgment be referred to the Companies Registry.

Zervos J's concerns are shared by many in the IP community and may re-open the discussion on company name hijacking. Despite the 2010 amendment to the Companies Ordinance, the problem remains. Shadow companies continue to be incorporated in Hong Kong and brand owners have to expend time and money to deal with the problem by commencing court proceedings in Hong Kong. While realistically it would be difficult to see further amendments to the Companies Ordinance being made in the near future – especially given the recent overhaul of this Ordinance – Zervos J's remarks are to be welcomed as they highlight the need to deal with the problem at source. How this can be done is another matter – should the Companies Registry employ IP experts to vet company names or should an objection period be set up whereby proposed company names could be published and interested third parties could object? Any such process or proposal would take time to agree and vet but Zervos J's judgments highlight the fact that there is more work to be done in Hong Kong finally to solve the company name hijacking problem.

SINGAPORE

Winnie Tham and Nicholas Ong
Amica Law LLC, Singapore
Correspondent for Singapore

Legislative Developments

In Singapore, two significant legislative amendments in the intellectual property sphere are currently being considered. First, Singapore is considering new measures to enable rights-holders to protect their rights against pirate websites such as The Pirate Bay. Secondly, the Geographical Indications Bill has recently been introduced in Parliament. This Bill will enhance the level of protection for Geographical Indications (GIs).

Finally, in the first case of its kind, the Intellectual Property Office of Singapore (IPOS) has held in Lacoste v Caroline Herrera that a company cannot claim exclusive trade mark rights to a common element found in a "family" or "series" of registered marks, by virtue of the company's registration of those marks only.

New Measures against Pirate Websites

Currently, rights-holders can issue a "take-down" notice to internet service providers (ISPs) to request that they disable access to or remove copyright infringing material from their networks. If the ISPs do not comply, rights-holders will have to commence civil proceedings against them for copyright infringement. The problem with the current scheme is that civil litigation is fraught with uncertainty and expense. For instance, factual disputes might make it difficult for the rights-holders to obtain injunctions to prevent access to pirate sites.

The Ministry of Law has thus proposed amending the Copyright Act to allow rights-holders to apply directly to the Courts for injunctions without first having to establish the ISPs' liability in copyright infringement. The objective of this amendment, according to the public consultation released by the Ministry of Law, is to target "online locations
which clearly and flagrantly infringe copyright, and not search engines, e.g. Google or Yahoo, or websites based primarily on user-generated content, e.g. YouTube”.

The new judicial process is more efficient and secures a higher level of certainty for rights-holders.

Geographical Indications Bill

The Singapore Parliament has recently introduced the Geographical Indications Bill. GIs are terms which are used to inform consumers that a product comes from a particular place or region. Currently, GIs are protected in Singapore under the Geographical Indications Act. The current scheme provides two tiers of protection:

1. First, all GI terms enjoy a basic level of protection where GI labels cannot be used on products which do not come from the place indicated by the GI provided this misleads the public as to the true geographical origin of those products.
2. Secondly, for wines and spirits, there is an enhanced level of protection where GI labels cannot be used even if consumers are not misled as to the true geographical origin of the products in question.

The problem with the current scheme is that GIs are not required to be registered before they enjoy the relevant type of protection. The absence of a registration system means that the protection of a term is uncertain and can only be conclusively determined by a Court ruling in a civil suit.

The Geographical Indications Bill will enhance the protection of GIs in three ways.

First, the new system of registration will improve the certainty of protection given to GIs. Upon registration, holders are assured that their term is entitled to protection without having to obtain a Court ruling through a civil suit.

Secondly, the enhanced level of protection that wines and spirits currently enjoy will be extended to all registered GIs. As such, GI labels cannot be used even if consumers are not misled as to the true geographical origin of the products in question.

Thirdly, the new scheme will implement border enforcement measures for GIs. For instance, rights-holders will be able to request Customs authorities to detain goods suspected of infringing their rights.

Case Law Developments

Lacoste v Carolina Herrera

In this case, the applicants sought to register “L.12.12” in Classes 3, 8 and 25 (the Application Mark). The opponents sought to oppose the registration on the basis of several registered marks in class 3 they were the proprietor of, being:

<table>
<thead>
<tr>
<th>Trade Mark</th>
<th>Reg. No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>212 ON ICE</td>
<td>T0201161F</td>
</tr>
<tr>
<td>212 VIP</td>
<td>T0906637H</td>
</tr>
<tr>
<td>212 SEXY</td>
<td>T0524829C</td>
</tr>
<tr>
<td>212 by Carolina Herrera</td>
<td>T9705073H</td>
</tr>
</tbody>
</table>

Although the opponents did not have a registration for “212” alone, they opposed the Application Mark on the basis that they were the only registered proprietors for marks with the element “212” in Singapore.

The Registrar rejected this argument, stating that:

*Prima facie, registration of a number of marks each bearing the same element in common, does not automatically give rise to the presumption that the consumer would perceive them as being a family or series of marks, such that the registered proprietor of the marks is entitled to have protection of that common element.*

In order to claim additional protection of that common element, the registered proprietor will have to adduce sufficient evidence to show use of a sufficient number of these marks as to be capable of constituting a family or series of trade marks.

The opponent’s evidence was insufficient in this regard and as such their opposition failed. In any event, the Registrar also found that the element “212” was not confusingly similar to the Application Mark.
On 11 March 2014, the Cabinet of the Japanese Government decided to approve the Bill for the Act for the Partial Revision of the Patent, Design and Trademark Laws. Consequently, the Bill will be submitted to the Diet during the 186th Ordinary Session. If the Bill is passed by the Diet, it is expected to come into force in 2015.

The Bill aims to establish a more user-friendly intellectual property system for applicants, including SMEs and small enterprises, which enhance regional economies and employment, while being harmonised with other patent systems overseas.

In addition, along with the Bill, the Japan Patent Office (JPO) will endeavor to set new numerical goals concerning patent examination, including an effort for shortening by half the examination period required for granting patent rights, as well as to introduce a fresh framework under which experts outside the JPO can review the quality management process of patent examination, so as to achieve “the world’s fastest and highest quality” IP system.

Summary of Revisions

Patent Law

Improving Relief Measures

In line with the legal systems overseas, the Patent Act is to be revised in relation to relief measures so that applicants are entitled to extend certain periods required for filing, examination, and other procedures when they have compelling reasons, e.g. following disasters and the like. These measures will also be applied to the same cases covered by the Utility Model Act, Design Act, Trademark Act, and Act on International Applications under the Patent Cooperation Treaty.

Creating a New Post-Grant Review of Granted Patents

The law is to be revised to create a new post-grant opposition system. The existing post-grant review invalidation appeal procedure is also expected to be amended in light of the new post-grant opposition system.

Design Law

Japan is now considering acceding to Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs. Based on the Geneva Act, Japan’s Design Act is to be revised to improve the provisions for simultaneously filing a design application with multiple offices overseas in one procedure, so as to contribute to reducing the cost imposed on applicants.

Trade Mark Law

Expanding the Scope of Protection

The Act is to be revised so as to additionally cover certain trade marks in Japan, e.g. colours and sounds, which have already been broadly protected overseas.

Expanding the Scope of Eligible Entities Concerning the Regional Collective Trade Marks

The Act is also to be revised in order to add associations of commerce and industry, chambers of commerce and industry, and specified non-profit corporations as entities entitled to register regional collective trade marks, from the viewpoint of further accelerating the popularisation and dissemination of regional brands.

Japan Patent Office Performance Targets

Japan’s Economy Trade & Industry Minister Motegi stated at a press conference on 13 December 2013, that the JPO should enhance its efforts for patent examination procedures, including setting quantitative goals, so as to make the procedures as a whole smoother and more efficient and further to enhance the quality of the procedures. As a result of the Minister’s comments, the JPO decided that within the next decade (by FY2023), the examination period required for granting patent rights should be 14 months or less, and that the period from the time a request for examination is made, up to when the first notice of examination results is sent, should be 10 months or less.

If the “examination period required for granting patent rights” is successfully shortened from the current 29.6 months (the annual average based on the results in 2012) to 14 months or less by developing a required examination system, the period will be shortened by half, marking the world’s fastest level.

Conclusion

The details of the upcoming legislative revisions should be examined carefully, especially the post-
grant opposition system for patents, as Japan fine-tunes its intellectual property laws to foster the regulatory, legal and economic environment that contribute to further IP creation, protection and utilisation with the ultimate aim to ensure that Japan becomes the most advanced nation in the area of intellectual property in the next decade.

* Board Member, SHUSAKU YAMAMOTO, Osaka, Japan. This article reflects only the personal views of the author and should not be attributed to the author’s Firm or to any of its present or future clients.
From the Office of WIPO

Geneva

WIPO Re:Search Passes New Milestone in Fight Against Neglected Diseases

Geneva, 24 April 2014
PR/2014/757

An initiative bringing together pharmaceutical firms and other research groups has brokered more than 50 new partnerships in the fight against neglected tropical diseases, tuberculosis and malaria, marking an important milestone in using the intellectual property system to help combat maladies affecting more than one billion people.

Since the 2011 launch of WIPO RE:Search, WIPO and its Seattle-based partner BIO Ventures for Global Health (BVGH) have enlisted scores of partners from five continents to collaborate on developing diagnostics, treatments and vaccines for neglected tropical diseases (NTDs) – such as leprosy, river blindness and rabies, as well as malaria and TB – that are most prevalent in developing countries.

WIPO Re:Search matches owners of intellectual property and other resources – such as pharmaceutical compounds, data and discovery techniques – with qualified researchers working on new treatments for NTDs. Under the agreements, these resources are provided for free. So far, more than 50 such collaborations have been agreed, underscoring WIPO Re:Search’s growing influence in the public-health sphere.

Under the 50th agreement, GlaxoSmithKline plc will provide researchers at India’s National Institute of Immunology with its Published Kinase Inhibitor Set 1 (PKIS1), which will be used to better understand liver-stage malaria parasites.

Other recent agreements include two in which Sanofi SA and Pfizer Inc. are sharing compounds with researchers at the Center for World Health and Medicine at Missouri’s Saint Louis University to develop new anti-diarrheal treatments.

“ Barely two years old, WIPO Re:Search is finding new ways to use intellectual property in the fight against some of the world’s most persistent, and neglected, ailments,” said WIPO Director General Francis Gurry: “WIPO Re:Search and its partners are expanding their efforts to drive new medical innovations that will help millions of people around the world”.

BVGH President Jennifer Dent said: “BVGH is proud of the partnerships established between WIPO Re:Search members to date. We’ve seen a strong commitment and desire to share compounds and knowledge to help advance research and development for neglected diseases.” “Through these collaborations, WIPO Re:Search will make a difference in the lives of people living in endemic countries and that is the ultimate goal of consortia members,” she added.

In another notable collaboration, researchers at the University of California San Francisco are using Merck & Co. Inc.’s statins that were originally designed to combat human heart disease. The researchers are investigating whether the compounds are useful against the parasite that causes schistosomiasis.

WIPO Re:Search, with the financial support of the Australian government, has also arranged sabbaticals for biomedical researchers from Africa to work in some of the world’s leading research facilities, such as Novartis AG in Switzerland, and Stanford University and the University of California San Francisco in the US.
Current Developments – Europe

EUROPEAN UNION

Dr Faye Fangfei Wang
Senior Lecturer in Law
Brunel University, London
Correspondent for the European Union

CJEU Site-blocking Orders: Case Note for UPC Telekabel Wien GmbH v Constantin Film Verleih GmbH and Wega Filmproduktionsgesellschaft mbH (Case C-314/12, 27 March 2014)

Background and Facts

This is a case concerning unauthorised internet access to copyrighted films between UPC Telekabel Wien GmbH (UPC Telekabel), a company based in Vienna, Austria, which provides internet, TV and telephony services, and two German film companies, Constantin Film Verleih (Constantin) and Wega Filmproduktionsgesellschaft (Wega).

Constantin and Wega noticed that UPC enabled a website (kino.to) to provide unauthorised public access to UPC customers, via streaming and downloading, to some of their copyrighted films. When Constantin and Wega requested UPC to block the kino.to site, UPC refused. Constantin and Wega sought an injunction prohibiting UPC from providing its customers with access to the site. UPC Telekabel denied a claim of copyright infringement as it did not have any business relationship with the operators of the website at issue.

The Higher Regional Court (Vienna, Austria) reserved the order of the Court of the first instance and held that “by giving its customers access to content illegally placed online, UPC Telekabel had to be regarded as an intermediary whose services were used to infringe a right related to copyright, with the result that Constantin Film and Wega were entitled to request that an injunction be issued against UPC Telekabel”.

However, as regards technical measures for the protection of copyright, it reversed the order of the Court of the first instance and held that “UPC Telekabel could only be required, in the form of an obligation to achieve a particular result, to forbid its customers access to the website at issue, but that it had to remain free to decide the means to be used”. UPC Telekabel appealed on a point of law to Austrian Supreme Court. The Supreme Court requested the European Court of Justice (CJEU) to answer whether UPC Telekabel should “be ordered to block the access of its customers to a website making available to the public some of the films of Constantin Film and of Wega without their consent”.

This case report analyses the responsibility, justification and feasibility of site-blocking from internet intermediaries, and provides insights into the promotion of harmonised implementation of technical measures within Member States.

Debate on the Responsibility, Justification and Feasibility of Site-Blocking

Upon the request of the Austrian Supreme Court, CJEU is required to interpret Article 5(1) and (2) (b) and Article 8(3) of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, by answering the following questions:

1. Is Article 8(3) of Directive 2001/29 to be interpreted as meaning that a person who makes protected subject-matter available on the internet without the rightholder’s consent [for the purpose of Article 3(2) of Directive 2001/29] is using the services of the [internet] access providers of persons seeking access to that protected subject-matter?

If the answer to the first question is in the negative:

2. Are reproduction for private use [within the meaning of Article 5(2)(b) of Directive 2001/29] and transient and incidental reproduction [within the meaning of Article 5(1) of Directive 2001/29] permissible only if the original of the reproduction was lawfully reproduced, distributed or made available to the public?

If the answer to the first question or the second question is in the affirmative and an injunction is therefore to be issued against the user’s [internet] access provider in accordance with Article 8(3) of Directive 2001/29:

3. Is it compatible with Union law, in particular with the necessary balance between the parties’ fundamental rights, to prohibit in general terms an [internet] access provider from allowing its customers access to a certain website (thus without ordering specific measures) as long as the material available on that website is provided exclusively or predominantly without the rightholder’s consent, if the access provider
can avoid incurring coercive penalties for breach of the prohibition by showing that it had nevertheless taken all reasonable measures?

If the answer to the third question is in the negative:

(4) Is it compatible with Union law, in particular with the necessary balance between the parties' fundamental rights, to require an [internet] access provider to take specific measures to make it more difficult for its customers to access a website containing material that is made available unlawfully if those measures require not inconsiderable costs and can easily be circumvented without any special technical knowledge?8

The CJEU firstly pointed out that it is solely for the national court to determine both the need for and the relevance of the questions that it submits to the Court of Justice.9 This reflects on the power of a national court for the determination of the liability of internet intermediaries, which is also indicated in the EC Directive on Electronic Commerce (Articles 12-14).10 It is confirmed that Articles 12-14 of the EC Directive on Electronic Commerce “do not affect the possibility for a national court or administrative authority to require a given service provider to determine or prevent an infringement on a case-by-case basis (i.e. to issue injunctions aiming at removal of illegal information or the disabling of access to it) which is, in principle, subject to the national law”.11

It is worth noting that, in the present case, the CJEU did not mention about the relevant provisions (i.e. Articles 12-14) of the EC Directive on Electronic Commerce in its judgment concerning limitations on the liability of service providers who offer mere conduit, caching and hosting service. If Articles 5 and 8 of the Directive 2001/29 and Articles 12-14 of the EC Directive on Electronic Commerce were read together and construed, it would help to explain with more clarity concerning exceptions and limitations to the reproduction rights for the protection of copyright.12

The CJEU, then, proceeded to answer Question 1 in combination of Question 2. It defined the term “intermediary” that, according to Recital 59 in the preamble to Directive 2001/29, “the term ‘intermediary’ used in Article 8(3) of that Directive covers any person who carries a third party's infringement of a protected work or other subject-matter in a network”.13 It asserted that “Article 8(3) of Directive 2001/29 must be interpreted as meaning that a person who makes protected subject-matter available to the public on a website without the agreement of the rightholder, for the purpose of Article 3(2) of that Directive, is using the services of the internet service provider of the persons accessing that subject-matter, which must be regarded as an intermediary within the meaning of Article 8(3) of Directive 2001/29”. It concluded that UPC is regarded as an intermediary whose services are used to access Constantin and Wega's films on a website (Kino.to).

Referring to Question 3 together with Question 4, the CJEU pointed out again that Member States must apply rules for the injunctions according to national law. It stated: “As is apparent from Recital 59 in the preamble to Directive 2001/29, the rules for the injunctions which the Member States must lay down pursuant to Article 8(3) of the Directive, such as those relating to the conditions to be met and the procedure to be followed, are a matter for national law”.14 This is in line with Recital 45 of the EC Directive on Electronic commerce, which provides that “the limitations of the liability of intermediary service providers established in this Directive do not affect the possibility of injunctions of different kinds; such injunctions can in particular consist of orders by courts or administrative authorities requiring the termination or prevention of any infringement, including the removal of illegal information or the disabling of access to it”.15

The CJEU further emphasised that, in addition to the interpretation of national law in a manner consistent with the Directive, the authorities and courts of the Member States must ensure that they “do not rely on an interpretation of it which would be in conflict with those fundamental rights or with the other general principles of EU law, such as the principle of proportionality”.16 Subsequently, it suggested that an injunction should be sought to strike a balance between copyrights and related rights, the freedom to conduct a business, and the freedom of information of internet users.17

However, the determination of appropriate technical measures becomes most challenging as technical availability and suitability impacts on the feasibility of site-blocking. Even if there are suitable technical measures available, it is possible that the implementation of such measures could be
unreasonably costly. It leads to the debate on the justification and feasibility of ISP’s site-blocking. As UPC Telekabel claimed, the various blocking measures which may be introduced can all be technically circumvented and that some of them are excessively costly.18

The CJEU supported the Appeal Court for the issue of the injunction that contains non-specific technical measures as “it does not seem to infringe very substance of the freedom of an internet service provider”19 in accordance with the principle of legal certainty20 for the following two reasons:

First, an injunction such as that at issue in the main proceedings leaves its addressee to determine the specific measures to be taken in order to achieve the result sought, with the result that they can choose to put in place measures which are best adapted to the resources and abilities available to them and which are compatible with the other obligations and challenges which they will encounter in the exercise of their activity.

Secondly, such an injunction allows its addressee to avoid liability by proving that they have taken all reasonable measures. That possibility of exoneration clearly has the effect that the addressee of the injunction will not be required to make unbearable sacrifices, which seems justified in particular in the light of the fact that they are not the author of the infringement of the fundamental right of intellectual property which has led to the adoption of the injunction.21

That is, in compliance with the fundamental right of internet users to freedom of information, the intermediary should adopt resources and abilities available to them for technical measures to prevent or put up barriers to unauthorised access to the protected subject-matter without making unbearable sacrifices. Thus, the CJEU allowed a court injunction that does not specify the measures which that access provider must take and when that access provider can avoid incurring coercive penalties for breach of that injunction by showing that it has taken all reasonable measures, provided that: (i) the measures taken do not unnecessarily deprive internet users of the possibility of lawfully accessing the information available; and (ii) that those measures have the effect of preventing unauthorised access to the protected subject-matter or, at least, of making it difficult to achieve and of seriously discouraging internet users who are using the services of the addressee of that injunction from accessing the subject-matter that has been made available to them in breach of the intellectual property right, that being a matter for the national authorities and courts to establish.22

Final Judgment

The Court (Fourth Chamber), therefore, supported blocking orders for infringing sites and allowed the intermediary to choose suitable technical measures that are available to them. It ruled that:

(1) Article 8(3) of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society must be interpreted as meaning that a person who makes protected subject-matter available to the public on a website without the agreement of the rightholder, for the purpose of Article 3(2) of that Directive, is using the services of the internet service provider of the persons accessing that subject-matter, which must be regarded as an intermediary within the meaning of Article 8(3) of Directive 2001/29.

(2) The fundamental rights recognised by EU law must be interpreted as not precluding a court injunction prohibiting an internet service provider from allowing its customers access to a website placing protected subject-matter online without the agreement of the rightholders when that injunction does not specify the measures which that access provider must take and when that access provider can avoid incurring coercive penalties for breach of that injunction by showing that it has taken all reasonable measures, provided that: (i) the measures taken do not unnecessarily deprive internet users of the possibility of lawfully accessing the information available; and (ii) that those measures have the effect of preventing unauthorised access to the protected subject-matter or, at least, of making it difficult to achieve and of seriously discouraging internet users who are using the services of the addressee of that injunction from accessing the subject-matter that has been made available to them in breach of the intellectual property right, that being a matter for the national authorities and courts to establish.23
Conclusion and Afterthoughts

The present CJEU UPC copyright protection case affirms that it is the responsibility of intermediary service providers to choose and implement appropriate technical measures to protect rightholders. Such responsibility can be justified as it is feasible for service providers to know and best adopt recourses and abilities available to them. Nevertheless, this is not an easy and straightforward task as the deployment of technical measures for the blocking of infringing sites has to achieve the effect of striking a balance for the protection between copyrights and related rights; the freedom to conduct a business; and the freedom of information of internet users. Thus, it seems that a clear guidance on specific standards from the Commission is required in order to ensure the proportionality of remedies implemented by intermediaries.

The power of the Commission for the protection of IP rights, e-business and internet users can be replicated from that in other sectors such as data privacy protection so as to achieve a harmonised standard for the protection of different rightholders. For example, in the power of the Commission can be found under the recent Proposal of General Data Protection Regulation 2012, which explicitly specifies that implementing powers should be conferred on the Commission for various measures such as technical standards and mechanisms for certification; and the Commission should consider specific measures for micro, small and medium-sized enterprises. The power of the Commission can also be reflected by Articles 23, 30 and 39 of the Proposal of General Data Protection Regulation that the Commission shall be empowered to adopt delegated acts for the purpose of specifying any further criteria and requirements for appropriate measures and mechanisms and lay down technical standards for the requirements for data protection.

It is understandable that the CJEU, in principle, should leave the Member States with the necessary discretion to define transposition measures which may be adapted to the various situations possible, because the provisions in the Directives are relatively general. However, in the absence of a harmonised standard from the Commission at the Community level, national courts may implement Directive 2001/29 differently according to their national law.

In the recent UK case, EMI Records Ltd and others v British Sky Broadcasting Ltd and others, it refers to the UPC case in the Austrian Court, stating that: “The Oberster Gerichtshof expresses concern at para 4(1) that courts in different member states have reached different conclusions on the proportionality of blocking orders. It suggests at para 4(2) that the question "should be judged in a uniform manner throughout Europe in accordance with 'guidelines for assessing the proportionality of specific blocking measures' laid down by the Court of Justice". This calls for a harmonisation of the adoption of appropriate blocking measures to bring about a consistent application of standard.

For example, as opposed to the present CJEU UPC case that an injunction is permitted without specifying the measures which that access provider must take and when that access provider can avoid incurring coercive penalties for breach of that injunction, there is a Belgian case where the Belgium Court ordered a court-appointed outside expert to conduct a technical and commercial evaluation of filtering applications for a case concerning copyright protection. However, later an injunction for the installation of a filtering system was prohibited by the CJEU as such system filers “all electronic communications passing via its services which applies indiscriminately to all its customers, as a preventive measure, exclusively at its expense, and for an unlimited period”.

Likewise, the UK Courts also specify technical measures in orders, for example, in the case of The Football Association Premier League Ltd (FAPL) v British Sky Broadcasting Ltd etc., where “the orders require IP address blocking of the IP address for FirstRow’s domain name firstrow1.eu. FAPL’s evidence is that this will not result in over-blocking since that IP address is not shared. The orders also require IP address re-routing and URL blocking for URLs at any shared IP addresses”.

Despite the permission of issuing an injunction with non-specific technical measures for the blocking of infringing sites, the present CJEU UPC case reinstates the harmonised implementation of the principle of proportionality where several fundamental rights are at issue by referring to national authorities and courts to establish whether all reasonable measures are taken. According to the principle of proportionality, measures taken should not only prevent unauthorised access but also not unnecessarily deprive internet users of the possibility of lawfully accessing the information.
available. In addition, it also takes into consideration the feasibility of technology available for measures, by permitting either preventing, or making it difficult to access protected subject-matter.

Such a principle has been applied consistently in some Member States.

For example, in the UK, in the case of EMI Records Ltd and others v British Sky Broadcasting Ltd and others, the Court considered the proportionality of the proposed orders from the perspective of individuals affected by them who were not before the Court. In Twentieth Century Fox Film Corp v British Telecommunications Plc case-by-case basis may help effecting orders.

The order would potentially T elecommunications Plc and others v British Sky Broadcasting Ltd and others, the Court considered the proportionality of the proposed orders from the perspective of individuals affected by them who were not before the Court. In Twentieth Century Fox Film Corp v British Telecommunications Plc case-by-case basis may help effecting orders.

It is commonly understood that the rightholder would ask the website to take down infringed content at first instance, though it may not always be a feasible option as the rightholder may not have corresponding detail of the website to take down infringement of a protected work in a network and enables its customer access to such website. In addition, also note that “Austria has not implemented any notice and takedown procedure” (See Market/2006/09/E Service Contract ETD / 2006 / IM / E2 /87, Study on the Liability of Internet Intermediaries, Country Report – Austria, 12 November 2007 (prepared by Gerald Spindler), p. 5, available at http://ec.europa.eu/internal_market/e-commerce/docs/study/ liability/austria_12nov2007_en.pdf (last accessed 23 April 2014)).

Such a principle has been applied in the Football Association Premier League Ltd (FAPL) case, it also employed the principle of proportionality in orders, which explains that “the interests of FAPL and the supporting rightholders in enforcing their copyrights clearly outweigh the art.11 EU Charter rights of the users of the websites, who can obtain the copyright works from lawful sources. They even more clearly outweigh the art.11 rights of the operators of the websites, who are profiting from infringement on a large scale. They also outweigh the defendants’ art.11 rights to the extent that they are engaged”.

As shown above, the proportionality test, known as “ultimate balancing test”, is horizontally applied to consider the proportionality of different rightholders protection, remedies and orders for the infringement of protected subject-matters.

After all, site-blocking (sometimes alongside internet filtering) is a common method used to prevent unauthorised access to protected materials online. However, it is also a highly technical issue concerning the determination and deployment of appropriate measures. It could become a burdensome responsibility for intermediaries when a problem is beyond their control. While it is fully understandable that courts give intermediaries freedom to decide the means to be used taking into account their technical knowledge and availability, it may also cause inconsistent standard implemented by intermediaries in Member States or result in ineffective outcomes. A general guidance on specific standards from the Commission may be of necessity; and an injunction containing a court-appointee expert’s recommendation of specific technical measures on a case-by-case basis may help effecting orders.

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1 Case C-314/12, UPC Telekabel Wiener GmbH v Constantin Film Verleih GmbH and Wega Filmproduktionsgesellschaft mbH, Judgment of the Court (Fourth Chamber) of 27 March 2014, para. 2.
2 By “Member States” shall ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right.
3 Case C-314/12, paras. 14.
4 Case C-314/12, para. 16.
5 Case C-314/12, paras. 12 and 14.
6 Directive 2000/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, Official Journal L 167, 22/06/2001 P 0010 – 0019. See Article 5 concerns exceptions and limitations to the reproduction rights; and Article 8 concerns sanctions and remedies. Article 8(3) provides that: “Member States shall ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right”.
7 Case C-314/12, paras. 17.
8 Case C-314/12, paras. 19 and 20.
12 Case C-314/12, para. 30.
14 Case C-314/12, para. 46. See also Case C-275/06 Promusicae [2008] ECR I-271, para. 68.
15 Case C-314/12, para. 47. See also para. 49, which explains that “the freedom to conduct a business includes, inter alia, the right for any business to be able to freely use, within the limits of its liability for its own acts, the economic, technical and financial resources available to it”.
16 Case C-314/12, para. 16.
17 Case C-314/12, para. 51.
18 Case C-314/12, para. 54.
19 Case C-314/12, paras. 52 and 53.
EU Data Retention Framework: The Invalidation of the 2006 Directive Casts a Cloud of Uncertainty

On 8 April 2014, the Court of Justice of the European Union (the CoJ) issued a key ruling (the Decision) pursuant to which the CoJ invalidated the 2006/24/EC Directive on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks (the Directive).

In the current context of massive surveillance of public electronic communications, the Decision is all the more important as it recalls the necessity of the balance between: (i) the need to retain technical data relating to electronic communications, in order to fight against serious crime including terrorism; and (ii) the right to privacy and the protection of personal data.

In a nutshell, the Directive provided that certain technical data – including traffic and location data, as well as identification data – relating to electronic communications had to be retained by the telecoms operators (the providers of publicly available electronic communications services or the operators of public communications networks) for a period of at least six months in order to enable governmental authorities to fight serious crime, with a maximum retention period of two years. The Directive did not allow the retention of the actual content of the communications, but only of the aforementioned technical data.

As a result of judicial proceedings started in Ireland and Austria, the issue of the validity of the Directive was referred to the CoJ, in the framework of requests for preliminary rulings. The validity of the Directive was questioned on several grounds including its compliance with two fundamental rights afforded by the Charter of Fundamental Rights of the European Union (the Charter): the right to privacy (art. 7) and the right to the protection of personal data (art. 8).

In its Decision, the CoJ indicated that data retention relating to electronic communications
for the fight against serious crime is of the utmost importance. However, it also indicated that said data retention principle is obviously an interference with the fundamental rights to privacy and to the protection of personal data. The CoJ concluded that said interference must be proportionate, before analysing the consequences as far as the data retention principles set forth by the Directive are concerned.

Pursuant to the analysis of the Directive by the CoJ:

- The Directive does not set out objective criteria relating to the number of persons who can access/use the retained data, and the access to the data is not subject to prior review by a court or administrative body controlling the purpose of the access request.
- The data retention period does not make any distinction between the different categories of data to be retained depending on the persons concerned and the usefulness of the data in light of the objective pursued.
- The Directive does not provide sufficient safeguards in order to protect the vast amounts of retained data against the risk of abuse or unlawful use or access.
- The Directive does not specify that the retained data should be kept within the territory of the EU, which results in the fact that security controls by an independent compliance authority cannot be carried out on the basis of EU law, in contradiction with the provisions of the Charter.

The conclusion of the CoJ was that the Directive is invalid. As a result of the Decision, the harmonised EU data retention framework disappears and the issue of data retention is currently deferred to the level of the national legislations of the Member States of the EU. Consequently, there is also a serious risk that national laws on data retention adopted by the Member States for the implementation of the Directive now lack legal grounds. They could potentially be challenged, just like the Directive, on the basis of the fundamental rights granted by the Charter.

The Decision of the CoJ is key for the protection of the fundamental rights to data privacy and to the protection of personal data, but the nullification of the Directive certainly casts a cloud of uncertainty over the EU legal framework relating to data retention.

Needless to say, a revised EU framework on data retention will be necessary. However, at least until the national laws of the Member States are revised in accordance with the terms of the Decision, the main concerns will typically be for: (i) the telecommunications operators, who currently apply data retention laws that may be lacking legal grounds; and (ii) the EU citizens, most of whom could start legal actions against the telecoms operators to challenge the current practice of retention of their personal data.

**Patent Infringement Seizures in France: A Powerful Tool but to Be Cautiously Applied**

**Emmanuel Baud and Olivier Banchereau*  
Jones Day  
France**

A few recent decisions of the Paris Civil Court of First Instance (Tribunal de Grande Instance de Paris) and of the Paris Court of Appeals have stressed that there is sometimes a thin line between the respective rights of the patentee and of the alleged infringer in the context of an infringement seizure (saisie-contrefaçon).

In this report, we outline the basic rules applicable to infringement seizure in France and detail recent rulings regarding: (i) the status of confidential documents seized during a seizure; and (ii) the obligation of the patentee not to hide relevant information when filing an application for a seizure.

Under French law the patentee, or its exclusive licensee, has the ability to facilitate the gathering of evidence of an alleged infringement to conduct an infringement seizure before initiating a legal action. This is the usual way in France to gather evidence of the existence, origin and scope of an alleged infringement of intellectual property rights.

The patentee who is aware of an alleged infringement or imminent infringement may request from the President of the Paris Civil Court, who has exclusive jurisdiction over patent cases in France, authorisation to have investigations conducted by a Court bailiff (Huissier de Justice) on the premises of the alleged infringer(s) and/or in any other third parties’ premises, where evidence of the alleged infringement may be available.

This request is filed on an ex parte basis and the alleged infringer is not informed of the same before the initiation of the seizure. In particular, French law does not provide for the possibility of
filing protective letters with the courts in view of trying to prevent an order, obtained unilaterally, authorising an infringement seizure.

Generally, the Court bailiff is authorised to: (i) describe the allegedly infringing products and / or processes, as well as technical and commercial documentation relating to the existence, origin and scope of the alleged infringement, (ii) seize samples of the allegedly infringing products against payment; (iii) take photographs and make copies of documentation relating to the alleged infringement; and (iv) ask questions to the representatives of the “seized” party during the investigations. The Court bailiff is also usually authorised to be accompanied by an expert, most of the time a patent agent, to assist in the technical description of the alleged infringement, as well as an IT expert and the police.

When the investigation is completed, the Court bailiff drafts an official report (procès-verbal) detailing his investigations. The documentation seized by the Court bailiff is attached to this report. The latter and the samples of the allegedly infringing products are communicated to the patentee’s legal representatives after the completion of the seizure, with the exception of confidential information and documents obtained during the seizure.

It may happen indeed that during the seizure the “seized” party argues that some documents are confidential and should not be disclosed to the patentee. In such a situation, the Court bailiff usually takes the documents notwithstanding their alleged confidentiality, puts them under seal and indicates that the parties would have to discuss this confidentiality issue with the President of the Court who ordered the seizure, with the “seized” party having the possibility of requesting that some documents should not be disclosed to the patentee if they are confidential. In this regard, the relevant provisions of French law provide that the “seized” party should revert to the President of the Court without any delay.

By a decision of 6 June 2013 (Nintendo European Research and Development v. Philips Electronics N.V.), the Paris Civil Court ruled that Nintendo did not initiate a recourse without any delay after having waited for almost one month after the completion of the seizure, the latter having been conducted on 22 March 2013 and the recourse having been initiated on 19 April. In particular, the Court did not take into consideration the fact that: (i) Nintendo had informed the Court bailiff of its concern with regard to the confidentiality of certain documents seized during the investigations shortly after the seizure, on 25 March 2013; and (ii) that Philips was aware of this issue; (iii) that it was necessary to translate into Dutch the recourse to be served upon Philips.

Regarding the nature of the confidential information at issue, the Paris Civil Court ruled on 14 March 2014 (Santos v Robot-Coupe SNC) that documents related to accounting, financial or business issues are per se confidential and should not be communicated to the plaintiff after the completion of a seizure, since the alleged infringement is disputable and the Court has not yet decided on this issue.

Another disputed topic is the level of information that the patentee should mention in its application for an infringement seizure, in particular in the context of complex cross-border disputes.

In this regard, the Paris Civil Court ruled on 29 March 2013 that it is not unfair for the patentee not to mention the existence of infringement proceedings pending abroad between the same parties, since the infringement seizure is sought on the basis of the French part of an European patent (Société Française du Radiotéléphone – SFR – and others v High Point), whereas the foreign proceedings are based on other patent rights, even if based on the same European patent.

More interestingly, the Paris Civil Court and Paris Court of Appeal (Paris Court of Appeal 28 January 2014) were presented with the question as to whether the patentee should mention the existence and content of license agreements with third parties, which may lead to exclude infringement against the alleged infringers due to the exhaustion of rights.

In this particular case, the Luxemburg company, High Point, argued that telecom operators were infringing its patent rights and filed an application in view of being authorised to conduct an infringement seizure. The President of the Paris Civil Court granted the same and the seizures were conducted. After the completion of the seizure, the seized parties filed a recourse to the Court with the view to challenging the order having authorised the seizure by arguing, in particular, that High Point did not act in a fair way by not informing the President of the Court of the existence of licence agreements entered into by the suppliers of equipments to the telecom operators on the patent
allegedly infringed. The President of the Court ruled that the absence of any information on the existence of those licences, even if their scope and enforceability were disputed, did not allow her to authorise the infringement seizure application properly and agreed to withdraw her previous order which authorised the seizure and to order the restitution of the seized documents to the “seized” parties. This decision was upheld by the Paris Court of Appeal.

For the sake of completeness, one should note that, at the same time, the same President of the Paris Civil Court ruled differently in another case (HTC Corporation and others v Nokia 29 November 2013). In that case, Nokia conducted an infringement seizure on the premises of HTC’s French affiliate on 29 and 30 April 2013. On 24 October 2013, HTC filed a recourse against the order which authorised the seizure. HTC argued that Nokia should not be entitled to invoke its patent rights against HTC on the basis of the exhaustion of rights since the latter had purchased its baseband processors from Qualcomm who would benefit from a patents cross-license with Nokia. The President of the Court refused to withdraw her order authorising the seizure. She ruled that HTC’s arguments were not supported by any convincing documents. She stressed that HTC’s arguments were solely supported by press articles which did not allow to assess the scope of the licence agreement and, in particular, whether it would apply to the European Union and would support an argument of the exhaustion of rights. She further stressed that such an argument would have to be dealt with before the Court on the merits and not before the President of the Court in the context of an infringement seizure application.

As a consequence, infringement seizure is still a very helpful tool in view of gathering evidence of an alleged patent infringement in France but the patentee should keep in mind that the application should be made on a good faith basis and that not disclosing relevant information when filing an application may lead to the cancellation of the seizure and possibly to the payment of damages.

* 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.


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**UNITED KINGDOM**

Duncan Ribbons, Joanne Gibbs and Sarah Hopton

Redd Solicitors LLP

Correspondents for the United Kingdom

**Wrong Way Round Confusion: Is it Sufficient?**

*Comic Enterprises Limited v Twentieth Century Fox Film Corporation*

[2014] EWHC 185 (Ch)

7 February 2014

URL: http://www.bailii.org/ew/cases/EWHC/Ch/2014/185.html

**Introduction**

This case concerns a David-and-Goliath action for trade mark infringement and passing off in which “David” is Comic Enterprises Limited (CEL), a small-to-medium-sized enterprise which operates entertainment venues in the UK under the name “the glee club”; and “Goliath” is Twentieth Century Fox Film Corporation (Fox), the company behind the well-known television series, glee. Whilst CEL was successful in its claim for trade mark infringement, Fox obtained partial revocation of CEL’s trade mark and successfully defended CEL’s claim for passing off.

**Background**

The claimant, CEL, has been operating live entertainment venues under the name “the glee club” since 1994. Its venues are predominantly used for live comedy shows but also host other entertainment events, including live music. CEL is the proprietor of the following UK series trade mark (the Mark) in classes 25 and 41, which was filed in 1999.

The first mark in the series is claimed to be in black, white and red, whilst the second is represented in monochrome.

The defendant, Fox, is the well-known American media and entertainment company. Fox produces
a television show called “glee” which focuses on a high school singing club in the US. The show has enjoyed considerable success in the UK and songs performed on it are available for sale and download in the UK. There have also been two concert tours which included shows in the UK, and Fox has sold merchandise linked to the tours and programme.

CEL alleged infringement of the Mark by Fox as well as passing off based on the unregistered marks “Glee Club”, “Glee” and “the Glee Club” without the device. Fox denied these allegations and counterclaimed for partial revocation (for non-use) and partial invalidity (on the inherent ground of descriptiveness) of the Mark.

**Decision**

This case discusses many different facets of trade mark law. The following summary does not attempt to cover all of them, but focuses primarily on the relevance of colour in series marks, and the infringement and passing off claims.

**The Effect of Colour in a Series Mark**

Two key questions concerning the scope of the registration arose from the fact that the first mark in the series is a colour mark.

The first arose from the unusual description that accompanied the Mark on the electronic register, namely the text: “LIMITATION: The applicant claims the colours red, black and white as an element of the first mark in the series”. It was unclear whether this text operated, in respect of the first mark in the series, as a “claim to the colours” (so that colour is just one factor to be taken into account in the assessment of likelihood of confusion) or whether the mark was limited to those colours (such that only marks in those colours could be said to infringe it). This was resolved by the parties writing to the Acting Divisional Director of the UK registry, who confirmed that the former interpretation was correct, the word “LIMITATION” being an artefact of migrating the registration to a new electronic system.

The second question was whether, as argued by Fox, the monochrome mark should be limited to the colour combination claimed in the first mark in the series, as a “claim to the colours” (so that colour is just one factor to be taken into account in the assessment of likelihood of confusion) or whether the mark was limited to those colours (such that only marks in those colours could be said to infringe it). This was resolved by the parties writing to the Acting Divisional Director of the UK registry, who confirmed that the former interpretation was correct, the word “LIMITATION” being an artefact of migrating the registration to a new electronic system.

**Infringement – Likelihood of Confusion**

When assessing infringement under s.10(2)(b) of the Trade Marks Act 1994, the Court found that the Mark was similar to the sign used by Fox (i.e. “glee”), but not highly so. This was due to: (i) the absence of the device; (ii) the absence of the words “the” and “club”; and (iii) the differing conceptual meaning, as the Mark refers to a club whereas the sign does not (in the absence of knowledge of the underlying television series).

For the purposes of the assessment of likelihood of confusion, the claimant relied on only one example of actual confusion, where a person saw an advert for Fox’s television show and assumed that it was connected to CEL. However, there were also several examples of so-called “wrong way round” confusion, where people seeing one of CEL’s venues thought it was connected to Fox’s television show. The Court held that, for the purpose of registered trade mark infringement, there was no need to show “right-way-round” confusion; a mere likelihood of confusion (in whichever direction) is sufficient. Accordingly, the infringement claim succeeded.

**Infringement – Reputation**

CEL’s claim for infringement under s.10(3) also succeeded. The Court held, when dismissing Fox’s claim for partial invalidity, that the mark had acquired distinctiveness by the date of application for registration and, on that basis, it considered it also enjoyed a reputation. Further, its reputation would have grown since then. The Court found that the similarity between the Mark and the sign was such that the use of the sign by Fox would cause the Mark to be brought to mind by the average consumer, and the distinctive character and repute of the Mark had been damaged by Fox’s use of the sign because potential customers were put off attending CEL’s venues because they thought that there was a connection to the television show.
Fox sought to raise a defence under s.11(2)(b), on the basis that its use of the word “glee” was descriptive and in accordance with honest practices. However, this was rejected by the Court on the grounds that an insufficient proportion of the public would be aware of the potentially descriptive nature of the word “glee”, and thus it would not be understood by the average consumer to be a description of the television show. In addition, the Court held that where the mark causes a likelihood of confusion, continued use cannot be considered to be in accordance with honest practices.

**Passing Off**

An essential element of the tort of passing off is that a defendant’s use of the sign gives rise to a misrepresentation. As set out above, in this case there was only one instance of actual confusion and several of “wrong way round” confusion. The Court considered that such “wrong way round” confusion could not be said to be a misrepresentation by a defendant as it is not generated by the defendant’s use of the sign. Further, the Court was unconvinced that “right way round” confusion was sufficiently likely to be said to cause damage to CEL. The claim for passing off therefore failed.

**Comment**

**Colour**

In the UK, it has been established that trade marks registered in monochrome cover that mark in all colours. This issue was particularly pertinent in this case, as it concerned a series mark which comprised the same mark in colour and monochrome. Although the Court is meant to identify for the purposes of assessing infringement, a single point of comparison which embodies the distinctive features of the relevant mark, it was not always clear in this case whether the Court was evaluating the infringement of the colour version or the monochrome version of the Mark.

Since judgment was handed down in this case, a Common Communication on European trade mark Common Practice has been published. Although this Communication does not specifically address series marks, as they are a peculiarity of UK trade mark law, the Communication clearly indicates a policy decision that the same mark in different colour combinations should not be regarded as being identical. It will be interesting to see how the UK registry interprets this guidance as regards series marks which are registered in multiple colours and whether the argument run by Fox (that the monochrome version of the mark should also be regarded as having a colour limitation) will be successful in future.

**Wrong-Way-Round Confusion**

This case establishes that “wrong-way-round” confusion is sufficient for the purposes of establishing registered trade mark infringement but not for the purposes of passing off. In this case, the Court justified this on the basis that passing off requires a “misrepresentation” whereas the test for infringement is a likelihood of confusion. However, given that these actions are both designed to protect the same essential function of a trade mark (albeit an unregistered trade mark in the case of passing off), i.e. that of designating the origin of goods or services, it is perhaps surprising that there should be this degree of divergence. In this case, the problem appears to be heightened by the fact that the reputation of Fox was significantly more extensive than that of CEL, thereby increasing the instances of “wrong-way-round” confusion. However, it is not easy to see why later extensive use of a sign by a defendant should help in a defence to an action for passing off where there is confusion that causes loss to the claimant.

**Not So Black & White After All – Court of Appeal Reviews the Scope of Protection of RCDs**

*Magmatic Limited v PMS International*

[2014] EWCA Civ 181

(28 February 2014)


On 28 February 2014, the Court of Appeal overturned a judgment of Arnold J in the Patents Court in a case involving, *inter alia*, a Registered Community Design (RCD) for a child’s ride-on suitcase, sold under the brand name “Trunki”.

The Court of Appeal decision includes a number of interesting points on the interpretation of RCDs, namely the information conveyed by computer-generated representations of a design and the relevance of surface decoration when considering infringement.

**Background**

To infringe an RCD, a design must produce the same “overall impression” to that produced by the RCD. An image from the RCD relied on by the claimant, number 43427-0001, and of the alleged
infringement, known as the “Kiddee Case”, are shown below:

At first instance, Arnold J found that despite there being differences between the RCD and the Kiddee Case, the Kiddee Case produced the same “overall impression” as that produced by the RCD, because it shared the “slimmer, sculpted, sophisticated, modern appearance, prominent ridge and horn-like handles and clasps looking like the nose and tail of an animal”.

Arnold J reasoned that, since the images in the RCD did not show any surface decoration, the RCD was for the shape of the suitcase, meaning that the proper comparison was with the shape of the Kiddee Case ignoring its surface decoration. The defendant appealed, arguing that Arnold J had misinterpreted the RCD and should not have disregarded the surface decoration of the Kiddee Case.

For more details of the High Court judgment, see Issue 94 of Intellectual Property Forum at page 104 (Registered Community Designs Can Have a Broad Scope of Protection).

Court of Appeal Decision

Giving the lead judgment in the Court of Appeal, Kitchin LJ confirmed that the scope of protection afforded to a design must be determined from the graphical representation of that design and the information it conveyed, without reference to any accompanying description.

Colour

Considering the relevance of colour to a design, Kitchin LJ explained that if colour formed no part of the design then it was conventional to file the design in black and white. Similarly, if a particular colour was a feature of the design, then the design could be filed wholly or partly in that colour; if monochrome colours were a feature of the design, this could be shown by placing the design against a background of a uniform but different colour. Kitchin LJ noted that, as in this case, it became more difficult when colour contrasts, rather than particular colours, were a feature of the design.

However, Kitchin LJ agreed with Arnold J that, as the representations were monochrome, the design was not limited to particular colours. This meant that the defendant could not rely on the colour of the Kiddee Case as a point of distinction.

Surface Decoration

Kitchin LJ cited with approval both Procter & Gamble Co v Reckitt Benckiser (UK) Ltd [2007] EWCA Civ 936 and Samsung Electronics (UK) Ltd v Apple Inc [2012] EWCA Civ 1339. In Procter & Gamble, it was held that the monochrome line drawings of the RCD in that case protected the shape of the product such that the surface decoration of the alleged infringement was to be ignored when making the comparison. However, in Samsung it was held that if the absence of ornamentation is an important feature of an RCD, then a departure from “no ornamentation” was a relevant consideration when making the comparison. Kitchin LJ did not find these two cases difficult to reconcile: it all depends upon the design in issue.

In the present case, the representations for the RCD were not simple line drawings, but computer-generated three-dimensional images showing the effect of light upon the RCD’s surfaces. Kitchin LJ noted two features of the RCD which were overlooked by Arnold J. First, the suitcase depicted looks like a horned animal with a nose and a tail, not only because of its shape but also because its surfaces are not adorned with any imagery which interferes with the impression the shape creates. Secondly, the representations showed a distinct contrast in colour between the wheels and the strap as compared with the rest of the suitcase.

Having found that the RCD is intended to create the impression of a horned animal, Kitchin LJ reasoned that any features of the Kiddee Case which contribute to it creating a different impression ought to be taken into account when making the comparison, including any surface decoration. He considered that it was wrong for Arnold J to exclude the surface decoration of the Kiddee Case when making the comparison because it significantly affects how the shape itself strikes the eye, and the overall impression it gives. For example, the impression created by the shape of the ladybird-style Kiddee Case was influenced by the two-tone colouring of its body and the spots on its flanks, which made it resemble a ladybird with antennae.
He also found that Arnold J erred in failing to take into consideration the “striking feature” of the colour contrast between the wheels and the body of the suitcase in the RCD, which was not present in the Kiddee Case.

Court of Appeal's Comparison
Having found that Arnold J had approached the test incorrectly, the Court of Appeal was free to form its own view on whether the comparison of the RCD and the Kiddee Case created a different overall impression on the informed user. Kitchin LJ acknowledged certain similarities "at a general level" between the Kiddee Case and the RCD, such as their animal resemblance, handles at the top of the front and rounded profile at both ends. However, Kitchin LJ also commented on the “many significant differences” between the Kiddee Case and the RCD, including: (i) the asymmetric and much more rounded profile of the Kiddee Case; (ii) the absence from the Kiddee Case of a ridge or cutaway semi-circular shape below the ridge; and (iii) the wheel arches covering the wheels of the Kiddee Case, in comparison with the uncovered wheels of the RCD (which were of a contrasting colour to the rest of the design).

Kitchin LJ concluded that the design of the Kiddee Case, at both a general and a detailed level, produced on the informed user a different “overall impression” from that produced by the RCD and therefore did not infringe. The design of the RCD was sleek and stylised and, from the side, had a generally symmetrical appearance and a significant cutaway semi-circle below the ridge. It created the impression of a horned animal. In comparison, the Kiddee Case's design was softer, more rounded and evocative of an insect with antennae or an animal with floppy ears.

Comment
Following on from the Samsung v Apple and Procter & Gamble decisions, the Court of Appeal's judgment in this case highlights that whether surface decoration (or even the absence of surface decoration) will be taken into account when interpreting the scope of protection of an RCD will depend upon the design in issue and how it is represented in the registration.

In this case, it seems relatively clear that if the RCD had been represented with line drawings, rather than a computer-generated “solid” design with light effects, it would have been treated differently and had a broader scope of protection. However, given that Kitchin LJ found that Arnold J had ascribed the wrong overall impression to the RCD in any event, and reopened the decision on that basis, it may not have made any difference to the outcome in this case even if the RCD had been a line drawing.

The overarching practice point arising from this decision is that applicants for RCDs need to think carefully about what it is that they want to protect and how they represent that design. While it might be tempting to think that line drawings are preferable to computer-generated images, this may not always be the case because of the need to seek protection at the appropriate level of generality for the design in question: at a high level of generality, the design risks being invalidated by prior art whereas a very specific design may not offer adequate protection against similar designs. An obvious way to hedge against these competing considerations would be to file a series of RCDs, each seeking protection at a different level of generality (e.g. one with line drawings, one with computer-generated images with no surface decoration and one with photographs of the actual product including surface decoration).

Samsung Gets Second Bite of the Apple with Post-judgment Patent Amendments
Samsung Electronics Co Ltd v Apple Retail UK Ltd and another
[2014] EWCA Civ 250
(11 March 2014)
URL: http://www.bailii.org/ew/cases/EWCA/Civ/2014/250.html

Introduction
The Court of Appeal has allowed an adjournment of Samsung’s appeal from a decision revoking its patents pending the outcome of a post-judgment application made by Samsung to amend the claims in the European Patent Office (EPO). If the EPO allows the amendments, then the claims in issue on the appeal will be different from those in issue at first instance.

Background
This case forms part of the on-going global dispute between technology giants Samsung and Apple. In these proceedings, Samsung alleged that various Apple products, including the iPhone 4, iPhone 4S and the iPad 2 3G infringed two of its patents.
Current Developments – Europe

At first instance, in the High Court (Patents Court), both of Samsung’s patents were found: (i) not to be entitled to their claimed dates of priority; (ii) to be invalid due to lack of novelty over the intervening prior art, and (iii) even if they had been entitled to their claimed dates of priority, to be invalid for obviousness. Samsung had made applications in the proceedings for conditional amendment of the patents, but these were found not to cure the findings of invalidity and were accordingly dismissed. On 8 May 2013, an order was made for the patents to be revoked. However, that order was suspended pending the outcome of an appeal, provided that Samsung proceeded with the appeal with “due diligence”. Samsung filed a Notice of Appeal three weeks later and the hearing of the appeal was scheduled for early March 2014.

On 5 November 2013, Samsung filed applications to amend the claims of the patents using the central limitation procedure in the EPO and requested that these applications proceed on an expedited basis. The amendments sought by Samsung in the EPO did not reflect the amendments sought in the first instance proceedings in the UK.

The central limitation procedure allows the proprietor of a European patent to make a single application to amend its claims which, if allowed, takes effect in all countries where national designations are in force (subject to an earlier, final decision of a national court having limited the claims in that country to a greater extent). The amendments, if allowed, would therefore have effect in the UK (as a result of the fact that the revocation order made at first instance had been suspended pending the appeal). Furthermore, the amendments are considered to take effect ab initio and therefore apply retrospectively.

Shortly before the hearing of the UK appeal was due to come on, Samsung applied for an adjournment of the appeal pending the resolution of its applications for central amendment. Samsung’s position was that the EPO would decide on the amendment applications before there was a final decision in the UK on the validity of the patents and therefore it would be sensible to adjourn the appeal to avoid it being conducted on a false basis (i.e. the wrong set of claims). Apple made an application in response which, in essence, sought to make Samsung choose between pursuing its applications for central amendment in the EPO and its appeal in the UK.

Decision

The Court of Appeal, with Kitchin LJ giving the judgment of the Court, accepted Apple’s proposition that the fact that applications for central amendment are on foot does not prevent a national court from considering, or indeed revoking, a patent even if the central amendment applied for would save the patent. However, the Court pointed out that in this case the order for revocation had been suspended pending the outcome of the appeal and held that whilst the order is suspended, the patents remain in force and can be amended.

Apple argued that Samsung’s application constituted an abuse of process on the basis that: (i) Samsung was merely seeking to avoid the inevitable rejection of any application it may have wished to make for post-judgment amendment in the UK; (ii) when the order for revocation was suspended and permission to appeal given it was not contemplated that Samsung would apply for a central amendment; and (iii) Samsung had failed to comply with procedural rules requiring it to serve all parties to the proceedings with a copy of the intended application 28 days prior to filing it with the EPO and therefore had deprived Apple of the opportunity to seek directions from the Court on it.

The Court accepted that Samsung would be unlikely to be successful in obtaining a post-trial amendment in the UK but did not accept that Samsung’s actions amounted to an abuse of process for any of the reasons argued by Apple, on the basis that the legislative scheme in the UK specifically contemplated that applications for central amendment before the EPO might be made while UK proceedings are still pending. This includes the filing of an application for central amendment between a first instance judgment and any appeal hearing in such proceedings.

The Court acknowledged that it was conceivable that in certain circumstances an application for central amendment could amount to an abuse of process but this was not such a case. The Court declined to give guidance on what these circumstances might be, instead preferring to allow the jurisprudence in this area to develop on a case by case basis.

Importantly, the Court held that there was a real possibility, notwithstanding the fact that Samsung had been a little optimistic in its original estimate of the timing of the EPO’s determination of its
applications for central amendment, and that those applications would be determined prior to a final decision on validity being issued in the UK. If this were the case, the appeal hearing would have proceeded on a false basis and the costs of the proceedings would have been wasted.

The Court therefore held that Samsung's application should be allowed and Apple's should be dismissed. The proceedings were adjourned until the outcome of Samsung's applications for central amendment was known. The Court did, however, expressly reserve Apple's rights to be heard further about the conduct of the action at that stage.

**Comment**

The concern underlying Apple's application in this case and its characterisation of Samsung's behaviour as an abuse of process was that it did not want to face a new set of claims at the appeal stage in circumstances where it had been open to Samsung to make those amendments at trial. However, given the concurrent jurisdiction of the EPO and national courts to determine validity and amendments, the tide was always running against Apple.

The decision confirms that a patent granted by the EPO may be amended after trial using the central limitation procedure in the EPO and that any such amendments will have direct and retrospective effect in the UK so long as the decision revoking (or limiting) the patent in the UK has not become final. Bearing in mind that the central limitation procedure can be completed fairly quickly (in a matter of a few months on an expedited basis) and that the current workload of the English Court of Appeal is such that appeals are typically taking 12 months or more to be determined in the UK, there is a real risk that the claims in issue on the appeal could well be different from those in issue at first instance. This risk is further exacerbated by the Court's apparent willingness to delay appeal proceedings in the UK to allow the EPO procedure to run its course.

The Court's approach in this regard is to be contrasted to some extent with the approach taken with respect to stays of UK proceedings in favour of opposition proceedings in the EPO. The rationale for this divergence probably has much to do with the fact that the central limitation procedure, being *ex parte* in nature and limited to a consideration of whether the amendments are clear, limit (rather than broaden) scope and do not add matter, proceeds much faster than opposition proceedings.

Now that the legitimacy of this course of action has been endorsed by the Court, it is likely that it will become more prevalent in the UK. However, the fact that the central limitation procedure is not available while opposition proceedings before the EPO are ongoing and the fact that the amendments have effect in all designated countries, will limit the extent to which the procedure is used. If Samsung's amendments are allowed by the EPO, it will be interesting to see how the appeal is handled and what orders (if any) are made to further discourage the seeking of post-trial amendment using the central limitation procedure, for example, cost sanctions.

Finally, like the recent Supreme Court decision in *Virgin v Zodiac*, this decision highlights the uncertainty that is created when the EPO reaches a decision which is inconsistent with an earlier UK decision and is then applied with retrospective effect.
Current Developments – South Africa

Professor Owen Dean
University of Stellenbosch
Chair of Intellectual Property
Correspondent for South Africa

Unveiling the Wolf

The erstwhile Intellectual Property Laws Amendment Bill (IPLAB), generally known as the “Traditional Knowledge Bill”, became an Act when it was published in the Government Gazette as having been assented to by President Jacob Zuma on 10 December 2013. This came about despite vociferous objection from the IP community and other informed sources. The general consensus was that the Bill was fundamentally flawed and an abominable piece of legislation. Issue was not taken with the notion the traditional knowledge required improved protection, but the critics were adamant that the government were going about it in quite the wrong way, which put it out of kilter with international thinking on the subject and draft instruments prepared by the World Intellectual Property Organisation (WIPO), and that the Bill was just plain unworkable.

The preferred (and eminently logical) approach was to provide for the desired protection in custom-made and designed legislation which took special account of the particular circumstances of the works to be protected – so called “sui generis” protection. A draft sui generis bill was privately prepared and it met with widespread approval. A variation of it was later introduced into Parliament as a private member’s bill by Dr Wilmot James of the Democratic Alliance. It was spurned by the Government and instead its misconceived bandwagon rolled on, culminating in the passing of the IP Laws Amendment Act.

What always perplexed the opponents of the IPLAB was why it had been drafted and why the Government was quite so determined to have it become law, come what may. There was no international pressure to come up with such legislation. WIPO was assiduously working at coming up with the solution to the question of protection of traditional knowledge and the international community, including South Africa, were pitching in and making their contribution to the process. It is simply a question of time before a universal international formula for protection of traditional works, providing for international reciprocal rights, is adopted.

What caused South Africa to go off pop and attempt to do it its way? There was no local groundswell for new legislation. The “Lion Sleeps Tonight”/”Mbube” case had shown that works having a cultural or traditional flavour were capable of being protected by existing IP law. In fact, it emerged during a workshop conducted by the Association of Law Societies in 2008 to discuss IPLAB that the Council of Traditional Leaders of South Africa (CONTRALESA) were totally unaware of the existence of any steps that were being taken to protect traditional knowledge. Its President, who had been invited to participate at the Workshop, took the Department of Trade and Industry (DTI) to task in no uncertain terms that it could draft and promote such legislation without prior consultation with the traditional leaders and their communities. They, after all, ought to be the beneficiaries and principal stakeholders in respect of such legislation. The plot had clearly been hatched within the confines of DTI and the Government.

Opponents of the IPAB formed the conviction that the DTI must have a double agenda in pursuing the matter in the manner it was doing. There could be no other rational reason for the Government to pursue what is essentially a non-issue with such ardent fervour. Casting around for a possible true objective, the focus fell on the notion that promising traditional communities and leaders great wealth arising from the commercial exploitation of their cultural treasures would be a good way for the ruling party to ingratiate itself with them. Political support must inevitably flow from dangling such an attractive carrot in front of the traditional leaders. Maybe this is what IPLAB was all about – getting traditional leaders and communities onside in the forthcoming general election. Any political party that can command the allegiance of the rural black communities in
an election is in a very favourable position. The Government has, of course, at the same time come up with the Traditional Courts Bill which confers enormous powers on traditional leaders. Coincidence?

The aforegoing is largely conjecture in the absence of any supporting evidence or substantiation. But, it is submitted that such evidence has emerged. That evidence has been provided by no lesser a person than Rob Davies, the Minister of Trade and Industries.

On 10 February, a matter of a couple of days after the formal announcement of the date of the forthcoming national election, Davies issued a press statement announcing the signing and becoming law of the IP Laws Amendment Act. The press statement extols the apparent virtues of the Act. It says all the right things about the wonderful bounties that it is supposed to bestow. It promises that the Act “will empower communities to commercialise and trade on IKs” (i.e. Indigenous Knowledge). If you are a traditional community and believe in Father Christmas and the Tooth Fairy, you will be excited at the prospect of a marvellous flow of money in your direction, in return for doing absolutely nothing other than signing a consent to use an age-old property. You do not actually have to create or produce anything yourself, that was all taken care of by your forefathers. What a blessing from the ruling party! But then, you probably also believe that the Government will provide decent housing and jobs for all erelong.

What is particularly significant about this press statement is its timing; immediately after the announcement of the election. The actual signing of the Bill into law took place early in December and was announced amid no fanfare in the Government Gazette on 10 December 2013. Why no press statement then when the news was actual and hot? Why wait until two months later and give the impression that the event took place on 10 February 2014? At this stage a big fuss is made of the signing of the Act. The answers to these questions are self-evident. The press statement and its subject matter are linked to the election. It is an instance of blatant electioneering for party political gain. This is consistent with the true objective of the legislation as outlined above.

It must be said that the content of the press statement is wishful thinking. It is submitted that the Act is not going to deliver the prizes that it promises. The Act is simply impracticable and is bad law. Those most likely to benefit are not traditional communities but rather the civil servants who are being installed in numerous new structures set up to administer the Act (in the optimistic expectation that the system will actually be used and will work), and the lawyers who are destined to have a field day in handling the numerous disputes and controversies to which the tortuous and incoherent language and contorted principles of the Act will certainly give rise.

If my hypothesis is correct, the Government and the ruling party have sacrificed our IP laws on the altar of subjective political expediency and advantage. The country has now been saddled with an abominable piece of legislation that will not work in practice (and thankfully will probably become a white elephant) and has damaged the very fabric of our IP laws by prostituting their basic principles. All this in pursuit of gaining some extra votes at the national election. To make matters worse, we have also been opened up to international ridicule in the IP field by virtue of our adopting such patently absurd legislation.

The raiment of sheep’s clothing adorning the IPLAB has been cast off to reveal a wolf inside. It is a political predator hunting down votes to support its cause. IP law has been the hapless victim of this predator and has been dealt a grievous injury. Nothing less than a successful challenge to the Constitutional Court can heal this wound. “Tis a consummation devoutly to be wished” (Shakespeare – Hamlet).
Significant Proposed Amendments to the Canadian Trade-marks Act

On 28 March 2014, the Canadian Government introduced Bill C-31 as part of an omnibus budget bill, the Economic Action Plan 2014 Act, No. 1, which affects more than 40 pieces of legislation. The Bill includes the most significant changes to Canada’s Trade-marks Act (the Act) since it was enacted in 1953.

The proposed changes will fundamentally alter the trade mark regime in Canada and will significantly affect trade mark prosecution and portfolio management strategy.

The amendments are intended to make the Act consistent with the Singapore Treaty on the Law of Trademarks (the Singapore Treaty) and give the Government the authority to make regulations for carrying into effect the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (the Madrid Protocol).

The harmonisation aspects of the amendments will have the effect of enabling Canada to meet its international treaty obligations. The amendments to the Act are intended to harmonise Canada’s process with the standard procedures in the Singapore Treaty and the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (the Nice Agreement).

The amendments are also proposed in preparation for the implementation of the Madrid Protocol which will permit Canadian brand owners access to an international system of trade-mark registration.

Some of the welcome changes introduced by Bill C-31 include features relating to modernisation and harmonisation. These welcome amendments include:

1. Expanding the definition of trade-marks to include various non-traditional trade marks, including colour, three-dimensional shapes, holograms, modes of packaging goods, a sound, a scent, a taste, a texture and the positioning of the sign.
2. Simplifying the trade mark application and prosecution process, including the removal of the requirement to file a declaration of use before registration of a trade mark.
3. Provisions allowing for trade mark applications to be divided, permitting applicants to obtain registration for the goods and services for which the applicant can claim use, while maintaining the rest of the application for the goods and services not yet in use. This is particularly welcome in situations where an objection relates to only one of the goods or services covered by an application.
4. The uniquely Canadian way of spelling “trade-mark” will be eliminated, the Act will be known as the Trademarks Act and all references will be changed to “trademark” with no hyphen.
5. The term “wares” will be replaced with “goods”, which is the terminology used in the United States.

By simplifying the trade mark application process and allowing for divisional applications, the amendments may result in lower costs for trade mark applicants.

Some of the amendments to the Trade-marks Act that raise concern and which may result in the potential for increased costs associated with obtaining, maintaining and enforcing trade mark rights include the following:

1. Elimination of the requirement that the application indicates a “date of first use”, indicates whether it is filed on the basis of use or proposed use, or the details of any use and registration abroad.
2. The reduction of the term of registration of a trade mark from 15 years to ten years;
3. The adoption of the classification system established by the Nice Agreement, which may also result in higher costs since other countries using this system charge an additional fee for every additional category of goods and services. Canada currently charges CDN$250 for the filing of an application, regardless of the number of goods and services listed in the application. There will also continue to be fees associated with the requirement that the goods and services be described in “ordinary commercial terms” as this requirement has not been eliminated.
The proposed amendments provide that the Registrar will have discretion as to whether the proposed changes will impact those with pre-existing registered trade marks.

The proposed amendments have raised some concern about the uncertainty associated with trade mark clearance searches as well as risk analysis relating to opposition proceedings and infringement actions. The uncertainty stems from the fact that the test for entitlement depends on the first use date, yet dates of first use of trade marks will no longer be available on the Trade Marks Register as that information no longer has to be supplied when a trade mark application is filed and no declaration of use has to be filed. As a result, if these changes become law, it will be more difficult to evaluate the impact of new applications.

The content of Bill C-31 as it relates to the Trade-marks Act may change as it goes through the House of Commons and the Senate. Professional associations have expressed concern and have asked that the proposed amendments receive further input from interested parties and further consideration. Budget bills, however, typically pass quite quickly with little or no amendment. As currently drafted, there are some positive aspects to the proposed changes, some negative aspects, and much uncertainty. The legislation could be passed as early as some time in 2014.
Maximising Patent Value by Co-filing Design and Utility Patents

Introduction
The general objective when pursuing a patent is to obtain protection of a broad scope so as to better prevent others from making use of the patented invention. Indeed, a patent’s ultimate value almost always correlates to how effectively it can be applied to stop others from making use of an invention.

A great majority of patent applications filed in the US are utility applications that seek to protect functional characteristics of an invention. However, unless the invention is a process or composition of matter, the invention may include ornamental characteristics that may also qualify for protection via a design patent. Given the plurality of applications and claims available in this scenario, the use of the singular term “invention” can be misleading. The US Patent and Trademark Office avoids this issue altogether by simply referring to what may include a plurality of inventions as a “general inventive concept”. Applicants should likewise consider adopting this mentality at the outset of strategic planning for the patent process to better orient themselves toward seeking the broadest scope of protection available while avoiding undesirable, limiting inferences.

Differences Between Design Patent and Utility Patents
When determining whether to file one or both types of US patent applications, a number of basic, but important differences should be considered. Utility patents are issued for new and useful processes, machines, articles of manufacture, or compositions of matter, and account for approximately 90 percent of the patent applications filed in the US Patent and Trademark Office. Design patents are issued for new, original, ornamental designs embodied in articles of manufacture. Utility patents are valid for up to 20 years from the filing date with the payment of government maintenance fees, while design patents are valid for 14 years from the issue date and do not require any maintenance fees.

Under current US laws, a design or a utility patent application can generally claim priority to an earlier filed pending version of the other if there is common inventorship and adequate support in the written description (including drawings) of the earlier application for the later claimed subject matter. However, only a utility patent application may claim priority to a provisional patent application. In addition, while a US design patent application can in appropriate circumstances claim priority to an earlier filed foreign application, the design patent application must be filed within six months as opposed to one year for claiming priority in the utility patent application context.

Other important differences relate to costs. The cost to file and prosecute a utility patent application varies greatly, but is almost always significantly more than the cost to file and prosecute a design patent application. This is partly because utility patents include pages of written description and about 20 claims, whereas design patents are generally defined by visual (albeit “formal”) drawings and only a brief description of those drawings. As a practical matter, the examination process for a design patent application is often significantly shorter than the time it takes to progress through the US Patent and Trademark Office relative to a utility patent application.

Preparation and Prosecution Strategy
Although utility and design patents generally provide distinct scopes of protection, it may be difficult to effectively separate functional and ornamental characteristics of an inventive concept, or the functional and ornamental characteristics, and when considered in light of the applicant’s commercial interests, may each lend itself to different forms of patent protection. In such scenarios, it may be desirable to co-file utility and design patent applications to maximize the potential scope of protection. Such co-filings may also confer staggered protection that is strategically useful to applicants, for example narrower protection quickly granted followed some time later by broader protection. Further, such staggered protection may facilitate early marketing efforts by providing an earlier opportunity to reference a patent number rather than merely using the label “patent pending”.

When preparing such co-filings, costs may be offset by avoiding any duplication of efforts. For example, both types of applications will necessarily require drawings to illustrate at least some of the same features. In the utility patent application, drawings should illustrate every feature specified in the claims, so utility patent drawings should
be as detailed as possible. In the design patent application, however, drawings need only constitute a complete disclosure of the appearance of the inventive concept and the scope of the design patent’s single claim is defined by its drawings.

As such, in some cases it is preferred for design patent drawings to include only minimal detail. In practice, utility patent drawings may be prepared first and then converted to design patent drawings by omitting detail, which may be accomplished by strategically deleting lines and/or simply converting some solid lines to broken lines. Broken lines may be used to illustrate environmental structure or boundaries that form no part of the design to be patented. In other words, only the solid lines of a design patent are claimed. A skilled patent practitioner can use design patent protection to maximize the scope of the design patent, making it difficult and in some cases impractical to design around the patent.

An actual co-filing example includes an inventive concept for a game with ornamentality protected by US Design Patent No. D692,500 and functionality subject to pending protection by US Published Patent Application No. 2012/0225742, both to Max et al. and filed on 5 March 2012. In Figure 1 below of the utility patent application to Max et al. (left side), the game is illustrated with maximum detail to illustrate every feature specified in the claims. In Figure 1 of the design patent to Max et al. (right side), many features illustrated in the corresponding utility patent drawing have been omitted and all lines have been broken except for lines illustrating a backboard and a playing surface with a centre hole. Thus, the scope of protection provided by the design patent has been maximized because only these surfaces may be used when evaluating infringement of the design patent.

Further, the design patent to Max et al. issued in one year and seven months from the shared filing date of the patent applications, which is before the utility patent application received a first office action from the US Patent and Trademark Office.

Another co-filing example includes US Design Patent No. D613,300 and US Utility Patent No. 7,581,186, which share a common inventor and are assigned to Apple Inc. Referring to the illustrations below, in the ‘186 utility patent’s Fig. 19A, an input interacting with and controlling a user interface is illustrated by a horizontal finger swipe. On the other hand, Fig. 1 of the ‘300 design patent illustrates the user interface in solid lines and an iPhone displaying the user interface in broken lines. This calculated use of both US design and utility patents maximizes the scope of patent protection for the user interface.

Although it is possible to obtain a utility patent covering a feature with both functional and ornamental characteristics, a design patent may only be obtained if the feature is created for the purpose of ornamenting rather than as a result of only functional considerations. As such, when discussing a feature having both functional and ornamental characteristics in the application or during prosecution, it is critically important to avoid any admissions that the feature must be fashioned a certain way to perform its function. Such an admission will almost assuredly be used by the examiner to argue that the feature is dictated by function only as opposed to ornamentation. For
instance, although the backboard surface of Max et al. may possess a degree of functionality because it provides a backboard, it is not limited to any single shape or form. This observation may be used to demonstrate the design of the backboard surface was not merely dictated by function, but includes ornamental considerations. Thus, the backboard surface of Max et al. falls somewhere along the spectrum between purely functional and purely ornamental.

In some cases, an examiner of a design patent application may request additional information regarding a feature when attempting to determine whether the design of the feature was primarily dictated by function. In fact, the US Patent and Trademark Office allows the examiner to request a declaration regarding such if the examiner has formed sufficiently strong arguments. Thus, it is advisable to carefully document considerations surrounding the inventive process for features having both functional and ornamental characteristics, particularly with respect to motivating factors behind creation of their design. Any alternate designs or embodiments of a feature should be recorded and possibly described in the utility patent application. With this information, it is possible to rebut a functionality challenge and to establish ornamentality of the feature.

Conclusion

The practice of co-filing design and utility patent applications in the US is not suitable for every scenario. However, for inventive concepts with both functional and ornamental characteristics, supplementing a utility patent application with a design patent application, in many cases, may result in an increased scope of patent protection, thereby increasing their effectiveness and value. Further, as illustrated by Max et al., a supplemental design patent may be obtained more quickly and at a fraction of the cost.

Adam Rehm, Senior Managing Associate and Registered US Patent Attorney

The FCC v. Verizon case, and the Future Path for the FCC

On 14 January 2014, the United States Court of Appeals for the District of Columbia Circuit struck down all but the transparency requirement of the Federal Communication Commission’s “Net Neutrality” rules in Verizon v FCC, No. 11-1355, Slip op. (D.C. Cir., 14 January 2014) (Verizon). Understandably, the focus of reaction to the decision has been the future for net neutrality. However, the Court’s articulation of the limits on FCC authority may prove to be just as problematic for many other FCC efforts, including the FCC’s management of the industry transition to an all Internet Protocol network (the IP Transition).

Indeed, a petition seeking reconsideration of the FCC’s rural call completion rules based in part on the Court’s reasoning in Verizon was filed on the very same day that the Court released the decision.

The outcome of the net neutrality appeal was not shocking: the DC Circuit had already struck down the FCC’s earlier attempt to regulate Comcast’s network management practices in Comcast v FCC, 600 F.3d 642 (D.C. Cir. 2010) (Comcast). Although the FCC sought to address the flaws and jurisdictional limits that the Court had identified in Comcast, the Net Neutrality rules for broadband services nonetheless represented an aggressive attempt to address important issues that are, at best, at the very limits of the agency’s jurisdiction in light of the agency’s earlier decision to classify broadband services as “unregulated” information services.

Now that the Court’s reasoning for overturning the Net Neutrality rules has been published, the FCC likely will not be able to continue down the path it has followed to date with respect to services that depend upon broadband technologies, and Congress may well need to update the Communications Act of 1934, as amended by the Telecommunications Act of 1996 (the Act).

In light of the inexorable migration of all types of communications from traditional circuit-switched technologies to broadband- and IP-based technologies, the FCC’s decision to classify broadband services as information services, and its related refusal to classify Voice over Internet Protocol (VoIP) services as telecommunications services, greatly magnifies the importance of the scope of the agency’s Title I ancillary jurisdiction. Unfortunately for the FCC, the Court’s reasoning in Verizon further emphasizes the limitations on the agency’s ability to regulate information services, and seemingly narrows the potential scope for subsequent FCC action.

Congress, of course, could resolve the dilemma by overhauling the Act. However, major legislative overhauls are difficult at the best of times on the Hill. Given the current climate on the Hill, Congress is not likely to agree on a major overhaul of the Act in the near future. It is far more likely that minor tweaks of the Act to address
specific issues will make it through the legislative process. The FCC could also resolve the issue by reclassifying broadband services, and classifying VoIP services, as “telecommunications services” subject to common carrier regulation. A well-written reclassification order would likely withstand judicial challenge given the deference that courts give the FCC on these issues and the ability of agencies to reverse course, but the political fight over reclassification would be intense.

The timing of any significant action by Congress or the FCC will likely be determined by how the industry reacts to the Verizon decision, and whether the industry is effectively able to self-regulate or whether unjust and unreasonable practices become more widespread. In the meantime, the FCC may well choose to adopt “voluntary principles” and signal to the industry that the agency will take more serious actions if the “voluntary principles” are violated. Stay tuned, as the reactions by Congress, the FCC, and the industry to the Verizon decision will be interesting.

Todd D. Daubert, Partner

Supreme Court Decisions Expected to Discourage Patent Troll Litigation

A pair of unanimous decisions of the United States Supreme Court in April is expected to discourage non-practising entities (NPEs) (otherwise known as patent trolls) from filing litigation for its settlement value. The Supreme Court decisions could cause such NPEs who fail to prove infringement to take a hit in the wallet by loosening restrictive interpretations concerning awards of attorneys’ fees.

In both cases, the defendants successfully avoided liability on claims of patent infringement, and sought attorneys’ fees from the plaintiffs under S.285 of the US Patent Act, 35 USC. § 285, which allows an award of attorneys’ fees to the prevailing party in patent litigation in “exceptional cases”.

In Octane Fitness LLC v. Icon Health & Fitness Inc., 12-1184 (US 29 April 2014), the Supreme Court ruled that a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from other cases to be “exceptional”. The Court noted that this clarification was needed because the Federal Circuit Court of Appeals’ standards for the awards of attorneys’ fees in patent cases had appeared to make S.285 largely superfluous.

Carol Anne Been, Partner
VICTORIA

Fiona Brittain
Davies Collison Cave
Victorian Committee

On 20 February, Owen Malone (Director IP at Treasury Wine Estates) spoke on “Managing IP from a Corporate Perspective” at a well-attended session. His talk was highly practical and focused. It was illustrated by many real life examples pertaining to well-known wine brands. Owen emphasised value extraction and using IP for leverage rather than for simply protection.

On 15 April, Sia Lagos, District Registrar of the Federal Court of Australia, and Peter Riordan QC spoke on “Mediation from a Mediator’s Perspective”, facilitated by Robynne Sanders. The speakers shared some valuable lessons and insights into the mediation process, including preparing for a mediation, the role of legal representatives and documenting the mediated agreement.

On 20 May, Clive Elliott QC will present the Annual New Zealand update, and on 3 July, Ben Fitzpatrick will present the Patents Update.

NEW SOUTH WALES

Chris Williams
Gilbert + Tobin
New South Wales Committee

The NSW Committee has had a busy start to the year and has successfully arranged several well-attended and well-received presentations.

On 18 February, Odette Gourley presented on “Brands under Australian Law” at the (new) Sydney offices of Corrs Chambers Westgarth. On 6 March, DibbsBarker hosted a presentation by Dean Palmer, from the Canadian firm, IP Law and IProperty Inc., providing a review of recent changes in US and Canadian IP law titled “US and Canadian IP Law Update: Entering the North American Market with IP from Australia”. On 8 April, Professor David Llewelyn gave a joint IPSANZ and UTS presentation at the offices of Gilbert + Tobin, on the topic “European Trade Mark Law’s Search for the Yeti: Does the Average Consumer Exist?”.

Upcoming presentations include Patrick Fair speaking at Baker & McKenzie on 6 May on the topic “ALRC Copyright and the Digital Economy Report – Call me Fair? That Fair again Unsay”.

Clive Elliott QC is scheduled to present his annual New Zealand Update Roadshow on the evening of 21 May at the offices of Gilbert + Tobin.

QUEENSLAND

Kellie Stonier
Griffith Hack
Queensland Committee

On 2 April, Marion Heathcote presented the Trade Marks Update at Clovelly Estate Cellar Door, titled “The Seven Deadly Sins: Are Intellectual Property Laws Stifling Your Ability to Enjoy Your Favourite Vice?”. A discussion on the trade mark and other IP related challenges facing chocolate, alcohol and tobacco. The evening was a great success and many thanks to Marion for her informed and engaging discussion.

The Committee is looking forward to Clive Elliott QC’s New Zealand Update on 23 May, to the annual Patents Update with Ben Fitzpatrick on 13 June, and to Tim Heberden presenting on IP valuation on 16 July in conjunction with LESANZ.

SOUTH AUSTRALIA

Matt Murphy
Thomson Geer
South Australian Committee

On 9 April, barristers Ed Heerey and Ben Gardiner presented their joint Trade Marks Update presentation for 2014 to members of the South Australian Chapter of IPSANZ. Ed and Ben’s presentation is always well-attended and this year was no exception with in excess of 58 registered attendees. Their presentation covered all the latest trade mark decisions, whether from the Trade Marks Office all the way to the Full Federal Court. The presentation was highly informative and included Ed’s regular comic relief.

The next South Australian Chapter event will be a presentation by Clive Elliot QC on all things IP in New Zealand, which will be presented as part of Clive’s Australian Roadshow in May for this year.
WESTERN AUSTRALIA

Madeleen Rousseau
Herbert Smith Freehills
Western Australia Committee

On 20 February, IPSANZ in WA met with the newly appointed Director General of IP Australia, Patricia Kelly. The Director General updated members on various issues and gave members opportunity to voice concerns and pose questions on new procedure. It was a very informal yet productive meeting.

The Western Australian Committee hosted the 2014 IPSANZ Annual Dinner on 25 March at which Dr Warwick Rothnie presented the Copyright and Designs Update. The event was well-attended and was the first time the Annual Dinner was held at the beginning of the year. We wish to thank Dr Rothnie for travelling to WA, as we were very fortunate to have him here.

The next function planned will take place on 7 May. The Honourable Justice Jeremy Curthoys, President of the State Administrative Tribunal, will be speaking to IPSANZ about Advocacy before Administrative Tribunals. This presentation promises to be very valuable to anyone appearing before administrative panels, including before the Commissioners of Patents and Trade Marks.

On 19 May, Clive Elliott QC will be sharing on key developments in IP in New Zealand. This event has become a regular on the IPSANZ agenda, and provides a valuable opportunity to get a thorough update on significant IP happenings in New Zealand.

NEW ZEALAND

Sarah Chapman
Simpson Grierson
New Zealand Committee

On 19 and 20 March, we heard from Dean Palmer, a New Zealander, who now lectures and practises IP law in Canada and the US. Dean spoke in both Auckland and Wellington on “IP Developments in US/Canada – Issues for New Zealanders Looking to Exploit IP in North America”. We also had study groups in Hamilton and Christchurch on 24 March where recordings of Dean’s seminar were played for discussion by the groups. This was a new initiative for the New Zealand Committee to assist with enabling practitioners to claim CPD points. Previously, colleagues outside of Auckland and Wellington were able to view seminars online but this was not acceptable to the New Zealand Law Society as a way of earning CPD points. All four sessions were well-attended and the new study group initiative was well-received. A great success!

Garry Williams, a barrister at Richmond Chambers in Auckland, presented in Wellington and Auckland on 9 and 10 April on “The Vexed Question of the Legal Protection of Television Formats”. Again, the seminars were well-attended in both cities. Study groups will also be held in Hamilton and Christchurch on 19 May to view recordings of the session and to discuss.
Expressions of Interest
are invited from IP lawyers and writers
to contribute to the Profile Section of
Intellectual Property Forum

For 15 years, Intellectual Property Forum has featured regular
interviews with a range of eminent persons who have made
a significant contribution to the advancement of Intellectual
Property Law in Australia and New Zealand.

Some of those who have been profiled include:

**Leading IP Judges** –
Chief Justice Robert French AC
Justice Annabelle Bennett AO
Justice James Allsop
Justice Arthur Emmett
Justice Andrew Greenwood
Justice Susan Kenny
Justice David Harper AM
Justice John Middleton
Former Justice Michael Kirby AC, CMG
Former Justice William Gummow AC, QC
Former Justice Ian Callinan AC, QC
Former Justice Alan Goldberg AO, QC
Former Justice Kevin Lindgren AM, QC
Former Justice Peter Heerey AM, QC
Former Justice Catherine Branson
The Right Honourable Sir Thomas Gault QC

**Leading IP Academics** –
Professor James Lahore
Professor Sam Ricketson
Professor Michael Blakeney
Professor Francis Gurry
Professor Kathy Bowrey
Dr Christopher Kendall
Dr Robert Dean

**Leading IP Lawyers** –
Dr John Emmerson QC
Andrew Brown QC
John Katz QC
David Shavin QC
Angela Bowne SC
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Benny Browne
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Kristin Stammer
Kathryn Everett
Adam Liberman
Scott Bouvier
Wayne McMaster
Margaret Doucas
Keith Callinan

**Leading IP Players** –
Emeritus Professor Sir Gustav Nossal AC, CBE
Professor Adrienne Clarke AO
Professor John Mills
The Honourable Daryl Williams QC
Frank Moorhouse AM
Tamara Winikoff
Rhonda Steele

Initial enquiries or expressions of interest
to contribute a Profile are most welcome,
and may be directed to:

The Editor
c/o National Secretariat
The Intellectual Property Society of Australia and New Zealand Inc.
GPO Box 2491
Melbourne Victoria 3001
Australia

Telephone: (+61 3) 9761 2833
Facsimile: (+61 3) 9761 2899
Email Address: ipsanz@ipsanz.com.au